

Company Registration No. 5400982

DIAMONDCORP PLC

**Consolidated Financial Statements
For the year ended 31 December 2007**

DIAMONDCORP PLC

REPORT AND FINANCIAL STATEMENTS 2007

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DIAMONDCORP PLC

REPORT AND FINANCIAL STATEMENTS 2007

OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

P R Loudon
R N Allen
E A Worthington
J Willis-Richards

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

J C Forrest

REGISTERED OFFICE

First Floor, Georgian House
63 Coleman Street
London
EC2R 5BB

BANKERS

Barclays Bank PLC
Town Gate House
Church Street East
Woking
Surrey
GU21 6XW

SOLICITORS

Cobbetts LLP
Ship Canal House
King Street
Manchester
M2 4WB

Werksmans Inc
155 - 5th Street
Sandton
2196
South Africa

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to say that 2007 was the year that your Company joined the ranks of diamond producers as its 74% owned South African subsidiary began recovering gems from the Lace Mine tailings dumps. The last time that Lace produced diamonds was in 1931. It is also gratifying to report our first revenues from the sales of diamonds in the second half of the year.

At the end of September we commissioned the 1.6 million tonne per annum dense media separation plant at Lace, near Kroonstad, some 200km southwest of Johannesburg. During the commissioning process and the three months following commissioning, 320,045 tonnes of tailings were treated for the recovery of 25,266 carats of diamonds including a 17.72 carat stone and a 13.81 carat stone. It was exciting to recover these large stones in material that had been treated previously and perhaps even more thrilling to recover a significant proportion of fancy yellow stones, numerous vivid purples and one small intense blue diamond. A large proportion of stones recovered have been of gem quality and prices received from our three tenders at the Johannesburg Diamond Bourse have been in line with expectations. These results all give us an insight into what we can expect when we start underground mining in Phase Two of the Lace mine re-development.

An underground ramp is well advanced towards the primary kimberlite and we are on target to take a bulk sample from there in the third quarter of this year and subject to receiving all the necessary permits, we will then start treating ore from underground before the end of the year. With the addition of crushing capacity, this ore will be treated through the existing plant in a batch sequence with the tailings. Phase Two of operations at Lace will then have been brought forward by 12 months.

It would be wrong for me to paint too bright a picture of progress in 2007 and plans for this year, as there have been commissioning problems with the plant, while particularly high rainfall has hampered the movement of tailings and in particular power cuts by Eskom have caused lost production. We believe that we have now resolved problems with the crusher and have agreed with Eskom to access a new source of power for Lace from the dedicated power line supplying the nearby Voorspoed Diamond Mine being developed by De Beers. This supply should come on line within the next six months and will provide Lace with all the power it requires for the Phase Two underground operation. In the short term, Lace is still at the mercy of Eskom and South Africa's power problems but by mid year we should have access to two separate electricity supplies from different areas of the Free State.

Having established the tailings operation, Alistair Holmes, Managing Director of Lace Diamond Mines who had been with us from the start and was a great source of knowledge on the local diamond mining industry retired to Australia. We are very grateful to him for bringing the Lace opportunity to us and bringing the project to fruition. I am pleased to report that Paul Sharples who joined us in July has taken up where Alistair left off and is doing an excellent job under testing conditions. Employees at Lace now total over 100, we are well established in the community and are BEE compliant.

In my report last year, I talked about the Directors seeking a dual listing for the Company's shares on the AltX market of the Johannesburg Stock Exchange (JSE). However, with further investigation, we were advised that better visibility and marketability could be obtained by a full listing on the JSE and we appointed Investec to process our application. This should be completed in the next few weeks. After that and when market conditions improve, we are likely to issue a tranche of new shares to South African investors to enhance liquidity and provide capex for underground mine development and a milling circuit in the processing plant.

We are continually seeking opportunities to build your Company and in August, entered an option Agreement to acquire the private diamond mining Group Sonop which is the largest privately owned diamond producer in South Africa. This would have been a significant move by your Company. As you know, our shares were suspended on AIM since it was viewed as a reverse takeover. In the event, Sonop's new operations on the Middle Orange River failed to reach the conditions that we set in our Agreement and we decided not to proceed with the acquisition.

CHAIRMAN'S STATEMENT

Management completed reviews and due diligence on a number of other potential diamond projects in southern Africa including acquisitions and joint ventures. None of these have currently met the Company's targets for scalability or profitability and we will not build DiamondCorp on projects which do not add value. We continue to evaluate all opportunities.

Our focus to date has been on bringing the Lace mine into production but the Company also has a number of diamond exploration targets in our current lease area which we will begin to review when free cashflow is available from operations.

I would like to thank all our management and employees for successfully bringing the Lace mine back into production after so many years. Their hard work puts the Company in a strong position for an exciting future.

A handwritten signature in black ink that reads "Euan A. Worthington". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Euan Worthington

DIAMONDCORP PLC

FINANCIAL REPORT

RESULTS

The results for the year were as follows:

	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Revenue	74,795	-
Cost of sales	(189,403)	-
Gross loss	(114,608)	-
Administration expenses	(2,054,135)	(813,191)
Operating loss	(2,168,743)	(813,191)
Interest on bank deposits	112,492	14,145
Loss before taxation	(2,056,251)	(799,046)
Corporation tax	(45,000)	-
Loss for the year	<u>(2,101,251)</u>	<u>(799,046)</u>

Total recoveries to 31 December 2007 totalled 25,266 carats.

- (i) During the pre-commissioning period the Group recovered 9,290 carats
- (ii) in the post-commissioning period (October - December 2007) recoveries were 15,976 carats - 4,454 sold at tender in 2007 and 11,522 carats included in inventory at 31 December 2007.

Recoveries in the post commissioning period included 9,059 gem carats (57%) and 6,917 non-gem carats.

Production costs incurred during the year were £388,351 (USD 792,236). At our net selling price of £31 (USD 63), this required production of 12,380 gem carats to breakeven, versus our actual recovery of 9,059. Thus the largest portion of the gross loss is explained by insufficient carat recoveries resulting from operating issues which are explained in the "Business Review" section of the Directors' Report, the effect of which is estimated at £105,000 (3,321 carats at USD 63).

SHARE CAPITAL

During the year ended 31 December 2007, the following changes in share capital occurred:

- (i) On 1 February 2007 the Company was admitted to the AIM market and simultaneously issued 2,750,000 ordinary shares at 90 pence each;
- (ii) In accordance with the terms of the Convertible Loan Notes, on the date of admission, the notes with a face value of 3,900,000 converted to 6,500,000 ordinary shares; and
- (iii) 783,335 warrants were exercised for proceeds of £235,000 and the same number of ordinary shares were issued.

DIAMONDCORP PLC

FINANCIAL REPORT

BALANCE SHEET, CASHFLOW AND WORKING CAPITAL

During the year the Company raised £2,267,335 (15 May 2006 to 31 December 2006 - £6,559,692) from the following financing activities,

- £2,032,335 net from the issuance of 2,750,000 ordinary shares at 90 pence each
- £235,000 from the exercise of 783,335 warrants at 30p each.

During the year cash was invested as follows:

- (i) £1,740,069 (15 May 2006 to 31 December 2006 - £3,366,073) was invested in property, plant and equipment at the Lace mine in South Africa ;
- (ii) £1,635,209 (15 May 2006 to 31 December 2006 - £341,660) was used in the operations of the Company ; and
- (iii) £461,043 (15 May 2006 to 31 December 2006 - £470,203) was spent on intangible assets at the Lace mine in South Africa.

At 31 December 2007 the Group had cash of £1,330,707 (2006 - £2,822,089) and working capital (net current assets) of £2,254,642 (2006 - £119,282 net current liabilities). The amount of working capital at 31 December 2006 included convertible loan notes of £3,666,000, which converted to shareholders' equity subsequent to year end thereby increasing working capital by the same amount.

FUTURE PROSPECTS

Management has formulated an accelerated development plan for Phase Two underground mining which aims to introduce kimberlite pipe material into the mine plan by the third quarter of 2008, approximately 12 months ahead of schedule. The accelerated plan involves sinking a decline shaft into the unmined portion of the Lace satellite pipe which historically was only mined to a depth of 50m. Bulk testing followed by trial underground mining of the satellite pipe kimberlite via the decline shaft will be undertaken simultaneously with the refurbishment of the existing 360m deep, 6m x 2.7m, vertical shaft which accesses the main Lace pipe.



JC Forrest

Chief Financial Officer

29 February 2008

DIAMONDCORP PLC

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 and Jonathan Willis-Richards.

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 period 1 January 2007 to 31 December 2007

	Date appointed	Salary or fee £	Bonus £	Fees paid to third party £	Total £	Options granted Number
EA Worthington (2)	18 May 2006	15,000	-	20,000	35,000	370,000
J Willis-Richards (1)	18 May 2006	-	-	11,000	11,000	280,000
RN Allen	29 March 2005	11,000	-	-	11,000	280,000
PR Loudon (3)	29 March 2005	72,000	25,000	54,000	151,000	690,000
		<u>98,000</u>	<u>25,000</u>	<u>85,000</u>	<u>208,000</u>	<u>1,620,000</u>

Remuneration for the period 16 May 2006 to 31 December 2006

	Date appointed	Salary or fee £	Fees paid to third party £	Total £
EA Worthington (2)	18 May 2006	12,500	3,833	16,333
J Willis-Richards	18 May 2006	-	-	-
RN Allen	29 March 2005	-	-	-
PR Loudon (3)	29 March 2005	45,000	30,000	75,000
		<u>57,500</u>	<u>33,833</u>	<u>91,333</u>

(1) Includes amounts paid to Loeb Aron & Company Limited where Mr. Willis-Richards and Mr. Loudon are both Directors.

(2) Includes amounts paid to Mining Finance Solutions where Mr. Worthington is a Director.

(3) Includes amounts paid to Glendree Capital Management Limited where Mr. Loudon is a Director.

The Directors received no pension contributions or benefits in kind.

DIAMONDCORP PLC

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 2007.

PRINCIPAL ACTIVITIES

The Company was incorporated on 22 March 2005. On 15 May 2006, the Company acquired 100 percent 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 Mining (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.

BUSINESS REVIEW

The Company completed its Initial Public Offering and was admitted to the AIM Market of the London Stock Exchange on 1 February 2007. During 2007, the Company completed construction of a 1.6 million tonnes per annum diamond recovery plant at its Lace diamond mine in South Africa, which was commissioned on 1 October 2007.

During the commissioning process and the three months following commissioning, a total of 320,045 tonnes of tailings were treated for the recovery of 25,266 carats of diamonds, representing a recovered grade of 7.8 carats per hundred tonnes (cph). 13,744 carats were sold and 11,522 carats were in inventory at 31 December 2007. Due to extended mechanical breakdowns incurred since commissioning with the plant's crusher, approximately one-third of this tonnage remains stockpiled for recrusher to liberate additional diamonds (estimated to be up to 3 cph) locked up in +6mm to 28mm kimberlite particles.

Of the 13,744 carats sold in the period to 31 December 2007, 8,574 carats of gem quality were sold at tender for proceeds of £268,770 (US\$548,291) (\$64/carat). Also, 5,170 carats of industrial grade were sold at tender for £10,604 (US\$21,633) (\$4/carat). Of the 13,744 carats sold, 9,290 carats were diamonds recovered during the commissioning process and 4,454 carats were recovered post-commissioning during the period 1 October to 31 December 2007. The sale proceeds of these pre-commissioning diamonds are not reflected in revenue in the accounts, but instead have been credited against pre-commissioning costs capitalised in accordance with our accounting policy. The balance of carats produced during the period will be sold at future tenders.

The Company's diamond production and sales (translated to sterling) can be summarised as follows:

- Diamonds produced in 2007 during commissioning phase totalled 9,290 carats and were sold at tender for approximately £210,000.
- Diamonds produced after commissioning and sold at tender prior to 31 December 2007 totalled 4,454 carats. These sales totalled approximately £75,000.
- Diamonds produced after commissioning and held in inventory 31 December 2007 totalled 11,522 carats.

In the three months following commissioning, approximately one-third of available production time was lost due to numerous planned and unplanned power outages by South Africa's electricity provider Eskom, equipment damage resulting from power spikes and lightning strikes, and unseasonably high rainfall. However, on a positive note, the Directors can report that in the first months of 2008 most of the problems are being resolved and we expect February to be a record month in terms of tailings throughput. Further, cost control at the Lace mine is excellent, with the entire operation projected to run for less than £150,000 per month.

The problems in 2007 which seriously impacted the mining rate and diamond recoveries combined with the extended mechanical failure of the crusher resulted in the Group incurring a Gross Loss of £114,608 for the year. Net Loss for the year was £2,101,251, including all non-cash items from the operating section of the consolidated cashflow statement with the exception of working capital movements in receivables, inventories and payables of £1,075,175 (net £981,076). This loss also included some one off charges associated with the Company's IPO.

DIAMONDCORP PLC

DIRECTORS' REPORT

BUSINESS REVIEW (continued)

The diamonds now being produced from the tailings retreatment operation are above world average in terms of colour and quality. As a result, management has formulated an accelerated development plan for Phase Two underground mining which aims to introduce kimberlite pipe material into the mine plan by the third quarter of 2008, approximately 12 months ahead of schedule. The accelerated plan involves sinking a decline shaft into the unmined portion of the Lace satellite pipe which historically was only mined to a depth of 50m. Bulk testing followed by trial underground mining of the satellite pipe kimberlite via the decline shaft will be undertaken simultaneously with the refurbishment of the existing 360m deep, 6m x 2.7m, vertical shaft which accesses the main Lace pipe.

In December 2007, Snowden Mining Industry Consultants Pty Ltd completed a Scoping Study on the accelerated development plan which validated management's proposal. Funding alternatives for this proposal are currently being assessed.

Agreement has been reached with Eskom to access a new source of power for Lace from the dedicated power line supplying the neighbouring De Beers Voorspoed mine. This power source will come on line during the first half of 2008, and will provide Lace with all the power it requires for the Phase Two underground development. It will also mean that Lace has access to two separate sources of power from different parts of the Free State, which may alleviate the number of power outages encountered during Eskom's load shedding, where different regions have their power cut during periods of peak demand. By all accounts, load shedding is likely to continue in the foreseeable future until new electricity generation capacity is brought on line. Until the Voorspoed supply is connected, the Lace operation may continue to suffer from power outages.

During the year, management worked with Investec Bank to progress the process of obtaining a listing for the Company's shares on the JSE Limited.

Management worked with the Department of Mines and Energy (DME) in preparing a Mining Right application for Phase Two underground development at Lace, and this is expected to be granted during 2008. An issue exists between the Company and the DME over whether or not a Mining Right is required for Phase One tailings retreatment. The Company's legal advice is that processing of tailings dumps do not fall within the ambit of the Mineral and Petroleum Resources Development Act 28 of 2002 and does not require a mining right or a mining permit. The view held by the Company and its legal advisers was upheld by the High Court of the Orange Free State Provincial Division in December 2007 in a case between the DME and De Beers in relation to diamond tailings dumps at Jagersfontein. The DME has announced it will be appealing the De Beers decision. Until such time as the DME may be successful in an appeal, the Company will act on the advice of its legal advisers that the processing of the Lace tailings dumps does not require a mining right or a mining permit. The issuance of the Mining Right for the Lace underground will eliminate this issue with respect to tailings retreatment and management is working to expedite this process.

For more information on the enhanced business review, please refer to the financial report.

KEY PERFORMANCE INDICATORS

Management uses the following key performance indicators to assess the performance of the business. The table below reflects our results for the year:

	2007
Run of mine processed (tonnes)	320,045
Total Carats per hundred tones (cpht)	7.85
Average selling price per carat - gem	£30 (\$59)
Costs per tonne	£1.90 (\$3.80)

There are no comparative key performance indicators for the period ended 31 December 2006 as operations at Lace did not commence until October 2007.

DIAMONDCORP PLC

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is exposed to fluctuations in the price per carat which could impact revenues positively or negatively. The second 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. Again, this could have either a positive or negative impact on revenues and profits depending on the outcome.

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). It has expenditure in both GBP and ZAR, sufficient to ensure that its exposure to currency fluctuations is relatively limited. All revenues are transacted in USD. Bank accounts in all three currencies are used to reduce any risk to exchange rate movements.

Liquidity

The Group is currently in the development phase and is therefore loss making. The Board has secured adequate medium-term working capital funding principally through the Group's admission to AIM on 1 February 2007.

SHARE CAPITAL

Details of movements in share capital are set out in note 16 to the financial statements.

In 2007 the Company granted 2,970,000 options to purchase ordinary shares exercisable at a price of 135 pence per share which vest over a period of 5 years from the date of grant.

On 1 February 2007 the Company completed its Initial Public Offering of 2,750,000 ordinary shares at 90p each (gross proceeds of £2,475,000) and was admitted to the AIM market.

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 135 pence for a period of 24 months from date of admission to the AIM market.

On 1 May 2007, the Company granted a warrant to purchase 250,000 Ordinary Shares of the Company at an exercise price of 121.5p to BBK Consultancy plc, which vest when the Company's shares trade above 135p for more than 28 consecutive trading days, exercisable at any time up to and including 30 April 2011.

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.

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.

DIAMONDCORP PLC

DIRECTORS' REPORT

DIRECTORS

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

P R Loudon
R N Allen
E A Worthington
J Willis-Richards

The Directors who held office at 31 December 2007 have the following interests in the shares of the Company and options to purchase ordinary share of the Company:

	Vendor Warrants		Options to purchase ordinary share of 3 pence each		Interest in ordinary shares of 3 pence each	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006	31 December 2007	31 December 2006
PR Loudon	833,333	833,333	690,000	-	1,768,052	1,768,052
RN Allen	-	-	280,000	-	83,367	83,367
EA Worthington	-	-	370,000	-	90,000	90,000
J Willis-Richards *	833,333	833,333	280,000	-	1,316,666	1,316,666

* The Vendor Warrants held by J Willis-Richards include 250,000 Loeb Aron Warrants with whom J Willis-Richards is connected.

SUBSTANTIAL INTERESTS

At the date of the Directors' Report the following parties (apart from Directors) held in excess of 3% of the share capital of the Company:

MLP Investments (Caymans) Limited	5,950,000	17.11%
Aktiva Diversified Holdings Limited	3,375,000	9.70%
JPMF Natural Resources Fund	3,350,000	9.63%
Miramar Group SA	2,583,333	7.43%
Dromen Securities Limited	2,200,000	6.33%
Netcom Inc	1,833,333	5.27%
Green Dragon Nominees Pty Limited**	1,768,052	5.08%
Loeb Aron & Company Ltd***	1,166,666	3.36%

** PR Loudon is a Director of this Company.

*** PR Loudon and J Willis-Richards are Directors of this Company.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made no political or charitable contributions during the year ended 31 December 2007 (16 May 2006 to 31 December 2006 - £nil).

DIAMONDCORP PLC

DIRECTORS' REPORT

GOING CONCERN

After making enquiries, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

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 (as defined in the Companies Act 1985) 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 (as defined) 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 s234ZA of the Companies Act 1985.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

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



JC Forrest
Secretary
29 February 2008

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 two 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 at its monthly meetings. In addition:

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

Reappointment

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 and Jonathan Willis-Richards.

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 and Nick Allen, meets with the external auditors twice per year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under IFRSs (IFRSs) as adopted by the European Union and have also elected to prepare the parent Company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, Directors are also required to:

- properly select and apply accounting policies; and
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- provide additional disclosures when compliance with the specific requirements in IFRSs 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.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIAMONDCORP PLC

We have audited the Group and parent Company financial statements (the "financial statements") of Diamondcorp plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DIAMONDCORP PLC (continued)

Opinion

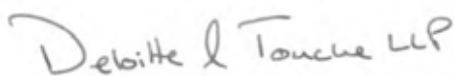
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 December 2007;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Separate opinion in relation to IFRSs

As explained in Note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2007 and of its loss for the year then ended.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cambridge, United Kingdom
29 February 2008

DIAMONDCORP PLC

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2007

	Note	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Revenue		74,795	-
Cost of sales		(189,403)	-
GROSS LOSS		<u>(114,608)</u>	<u>-</u>
Administrative expenses		(2,054,135)	(813,191)
OPERATING LOSS	3	(2,168,743)	(813,191)
Investment revenues - interest on bank deposits		112,492	14,145
LOSS BEFORE TAX		<u>(2,056,251)</u>	<u>(799,046)</u>
Tax	7	(45,000)	-
LOSS FOR THE FINANCIAL PERIOD	17	<u><u>(2,101,251)</u></u>	<u><u>(799,046)</u></u>
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		<u><u>(2,101,251)</u></u>	<u><u>(799,046)</u></u>
BASIC LOSS PER SHARE	8	(6.27p)	(4.50p)
HEADLINE LOSS PER SHARE		(6.26p)	(4.50p)

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

DIAMONDCORP PLC

CONSOLIDATED BALANCE SHEET
31 December 2007

	Note	2007 £	2006 £
NON-CURRENT ASSETS			
Goodwill	9	4,606,026	4,606,026
Other intangible assets	9	1,445,567	1,110,530
Property, plant and equipment	10	4,958,689	3,421,081
		<u>11,010,282</u>	<u>9,137,637</u>
CURRENT ASSETS			
Inventories	12	986,049	1,052,000
Other receivables	13	136,495	259,754
Cash and cash equivalents	22	1,330,707	2,822,089
		<u>2,453,251</u>	<u>4,133,843</u>
TOTAL ASSETS		<u>13,463,533</u>	<u>13,271,480</u>
CURRENT LIABILITIES			
Convertible Loan Notes	15	-	(3,666,000)
Other payables	14	(198,609)	(587,125)
TOTAL LIABILITIES		<u>(198,609)</u>	<u>(4,253,125)</u>
NET ASSETS		<u>13,264,924</u>	<u>9,018,355</u>
EQUITY			
Share capital	17	1,043,112	742,112
Share premium account	18	14,116,306	8,534,095
Warrant reserve	18	740,949	641,667
Share option reserve	18	282,790	-
Translation reserve	18	82,537	-
Retained losses	18	(3,000,770)	(899,519)
TOTAL EQUITY		<u>13,264,924</u>	<u>9,018,355</u>

These financial statements were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors



E A Worthington

Director

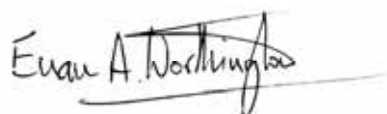
DIAMONDCORP PLC

COMPANY BALANCE SHEET 31 December 2007

	Note	2007 £	2006 £
NON-CURRENT ASSETS			
Investments in subsidiaries	11	4,217,500	4,217,500
Other intangible assets	9	396,343	393,653
Equipment	10	-	3,322
		<u>4,613,843</u>	<u>4,614,475</u>
CURRENT ASSETS			
Other receivables	13	8,759,826	7,412,307
Cash and cash equivalents		1,265,368	1,093,058
		<u>10,025,194</u>	<u>8,505,365</u>
TOTAL ASSETS		<u>14,639,037</u>	<u>13,119,840</u>
CURRENT LIABILITIES			
Convertible Loan Notes	15	-	(3,666,000)
Other payables	14	(64,193)	(65,515)
		<u>(64,193)</u>	<u>(3,731,515)</u>
TOTAL LIABILITIES		<u>(64,193)</u>	<u>(3,731,515)</u>
NET ASSETS		<u>14,574,844</u>	<u>9,388,325</u>
EQUITY			
Share capital	17	1,043,112	742,112
Share premium account	18	14,116,306	8,534,095
Warrant reserve	18	740,949	641,667
Share option reserve	18	282,790	-
Retained losses	18	(1,608,313)	(529,549)
TOTAL EQUITY		<u>14,574,844</u>	<u>9,388,325</u>

These financial statements were approved by the Board of Directors and authorised for issue on

Signed on behalf of the Board of Directors



E A Worthington

Director

DIAMONDCORP PLC

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2007

	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
GROUP		
Opening balance	9,018,355	6,923,709
Loss for financial period	(2,101,251)	(799,046)
New equity share capital subscribed	301,000	367,110
Premium on new equity share capital subscribed	5,582,211	4,529,382
Value attributed to warrants granted	99,282	-
Value attributed to share options granted	282,790	-
Translation reserve	82,537	-
Value of shares reserved for issuance (issued)	-	(2,002,800)
	<hr/>	<hr/>
Closing balance	13,264,924	9,018,355
	<hr/>	<hr/>
	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
COMPANY		
Opening balance	9,388,325	6,923,709
Loss for financial period	(1,078,764)	(429,076)
New equity share capital subscribed	301,000	367,110
Premium on new equity share capital subscribed	5,582,211	4,529,382
Value attributed to warrants granted	99,282	-
Value attributed to share options granted	282,790	-
Value of shares reserved for issuance (issued)	-	(2,002,800)
	<hr/>	<hr/>
Closing balance	14,574,844	9,388,325
	<hr/>	<hr/>

DIAMONDCORP PLC

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2007

	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Operating loss	(2,168,743)	(813,191)
Depreciation and amortisation	297,954	29,018
Amortisation of inventories	72,264	-
Share option expense	282,790	-
Other non-cash movements	49,159	-
Loss on disposal of property plant and equipment	3,322	-
Provision for loss on diamond inventories	84,737	-
Decrease (increase) in receivables	123,259	(117,100)
Increase in inventories	(231,284)	-
(Decrease) increase in payables	(433,516)	559,613
Effect of foreign exchange translation	284,849	-
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,635,209)</u>	<u>(341,660)</u>
INVESTING ACTIVITIES		
Purchase of intangible assets	(461,043)	(470,203)
Purchase of property, plant and equipment	(1,740,069)	(3,366,073)
Interest received	112,492	14,145
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,088,620)</u>	<u>(3,822,131)</u>
FINANCING ACTIVITIES		
Proceeds on issue of convertible loan notes	-	3,666,000
Proceeds on issue of ordinary shares	2,267,335	2,893,692
NET CASH FROM FINANCING ACTIVITIES	<u>2,267,335</u>	<u>6,559,692</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(1,456,494)</u>	<u>2,395,901</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,822,089	426,188
Effect of foreign exchange rate changes	(34,888)	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>1,330,707</u></u>	<u><u>2,822,089</u></u>

DIAMONDCORP PLC**COMPANY CASH FLOW STATEMENT****Year ended 31 December 2007**

	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Operating loss	(1,159,521)	(429,076)
Share option expense	282,790	-
Other non-cash movements	49,159	-
Loss on disposal of property plant and equipment	3,322	-
Increase in receivables	(1,347,520)	(5,352,781)
Decrease/increase in payables	(1,322)	42,811
NET CASH USED IN OPERATING ACTIVITIES	(2,173,092)	(5,739,046)
INVESTING ACTIVITIES		
Purchase of intangible assets	(2,690)	(93,653)
Purchase of equipment	-	(3,322)
Interest received	80,757	-
NET CASH FROM (USED IN) INVESTING ACTIVITIES	78,067	(96,975)
FINANCING ACTIVITIES		
Proceeds on issue of convertible loan notes	-	3,666,000
Proceeds on issue of ordinary shares	2,267,335	2,893,692
NET CASH FROM FINANCING ACTIVITIES	2,267,335	6,559,692
NET INCREASE IN CASH AND CASH EQUIVALENTS	172,310	723,671
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,093,058	369,387
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,265,368	1,093,058

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

General information

DiamondCorp Plc is a Company incorporated in England and Wales under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the Group's operations and its principal activities are set out in the Directors' report on page 7.

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 Group has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 *Presentation of Financial Statements*. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 19). At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

IFRS8: Operating segments

Amendments to IAS 1: Presentation of financial statement - A revised presentation

Amendments to IAS 23: Borrowing costs

IFRIC 11: IFRS 2: Group and treasury share transactions

IFRIC 12: Service concession arrangements

IFRIC 13: Customer loyalty programmes

IFRIC 14: IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

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) - see note 10. 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 IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The principal accounting policies adopted are set out below.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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) 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 reassessment, 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.

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.

e) 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 each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

f) 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;
- (ii) Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves and active and significant operations in relation to the area are 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 reassessed 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.

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. These capitalised expenditures are being amortised over the life of the work in progress, i.e. 24 months.

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 4% 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 4% per annum.

g) 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%
Buildings	4%
Fixtures and equipment	20-30%

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.

h) 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

h) Impairment of tangible and intangible assets excluding goodwill (continued)

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.

i) 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

j) 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.

Convertible loan notes

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Trade payables

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

Equity instruments

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

k) 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 retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit and loss account for the period except for differences arising on the retranslation 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 equity 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.

l) 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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

m) 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 amortized on the units of production method.

n) 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 net proceeds from the sale of diamonds recovered prior to that date have been recorded as a reduction in the carrying value of the pre-production expenses held within intangible assets.

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.

o) 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 m) above.
- Valuation of warrants issued and ordinary shares issued as consideration - see notes 17 and 18.

In addition, the Directors have considered the following key sources of estimation uncertainty:

- An issue exists between the Company and the Department of Mines and Energy (DME) over whether or not a Mining Right is required for Phase One tailings retreatment. The Company's legal advice is that processing of tailings dumps do not fall within the ambit of the Mineral and Petroleum Resources Development Act 28 of 2002 and does not require a mining right or a mining permit. The view held by the Company and its legal advisers was upheld by the High Court of the Orange Free State Provincial Division in December 2007 in a case between the DME and De Beers in relation to diamond tailings dumps at Jagersfontein1.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

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.

3. OPERATING LOSS

	1 January 2007 to 31 December 2007	16 May 2006 to 31 December 2006
	£	£
Operating loss is after charging		
Auditors' remuneration		
- as auditors	65,000	45,000
Foreign exchange losses	324,931	22,494
Depreciation of tangible assets	289,821	29,018
Amortisation of intangible assets	8,133	-
Amortisation of work in progress	72,264	-
	<u> </u>	<u> </u>
<u>The analysis of auditors' remuneration is as follows:</u>		
Fees payable to the Company's auditors for the audit of Company's accounts	34,000	25,000
Fees payable to the Company's auditors and their associates for other services to the Group	10,000	-
The audit of the Company's subsidiaries*	21,000	20,000
	<u> </u>	<u> </u>
Total audit fees	65,000	45,000
	<u> </u>	<u> </u>
Corporate finance services	15,000	120,000
	<u> </u>	<u> </u>
Total non-audit fees	15,000	120,000
	<u> </u>	<u> </u>
TOTAL	<u>80,000</u>	<u>165,000</u>

*Nkonki Inc performed the audit of Lace Diamond Mines (Pty) Limited for the period 16 May 2006 to 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

4. STAFF COSTS

Staff costs of the Group and Company were:

Group	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Wages and salaries	175,364	107,409
Social Security Costs	35,983	17,930
	<u>211,347</u>	<u>125,339</u>
Average number of employees	<u>14</u>	<u>7</u>
	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Company		
Wages and salaries	120,913	65,545
Social Security Costs	15,900	6,491
	<u>136,813</u>	<u>72,036</u>
Average number of employees	<u>4</u>	<u>3</u>

5. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended 31 December 2007 and for the period 16 May 2006 - 31 December 2006 and for the highest paid director were as follows:

	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Directors' remuneration		
Fees	<u>208,000</u>	<u>91,333</u>
Emoluments of highest paid director	<u>151,000</u>	<u>75,000</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

6. LOSS ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent Company was £1,078,764 (16 May 2006 to 31 December 2006 - £429,076)

7. TAX

	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Current tax	45,000	-
Deferred tax	-	-
	<u>45,000</u>	<u>-</u>
Tax expense for the period	<u>45,000</u>	<u>-</u>

Until it is probable that sufficient taxable profits will be available to allow all or partial recovery of deferred tax assets of £520,453 (2006 - £269,856), the accounting benefit of tax losses will not be reflected in the accounts.

The charge for the period can be reconciled to the loss per the income statement as follows:

	1 January 2007 to 31 December 2007 £	16 May 2006 to 31 December 2006 £
Loss for the period	(2,056,251)	(799,046)
Tax at the UK corporation tax rate of 30%	(616,875)	(239,714)
Tax losses carried forward	661,875	239,714
	<u>45,000</u>	<u>-</u>
Tax expense for the period	<u>45,000</u>	<u>-</u>

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

8. LOSS PER SHARE

a) Basic loss per share

Basic loss per share is calculated by dividing the profit for the year by the weighted average number of shares in issue during the period. The weighted average number of shares used is 33,501,444 (2006 - 17,766,026). The prior year weighted average number of shares has been restated to account for the reverse share split on 30 June 2006 disclosed in note 17.

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:

	2007	2006
Basic		
Loss per share	(6.27p)	(4.50p)
Effect of loss on disposal of property, plant and equipment	0.01p	-
Adjusted loss per share	<u>(6.26p)</u>	<u>(4.50p)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

9. INTANGIBLE FIXED ASSETS

For the year ended 1 January 2007 to 31 December 2007

Group	Goodwill	Power line	Pre- production capitalised expenses	Under- ground capitalised expenses	Mineral develop- ment rights	Total
	£	£	£	£	£	£
Cost						
At 1 January 2007	4,606,026	-	-	-	1,110,530	5,716,556
Regrouping intangible assets	-	256,957	238,891	9,408	(505,256)	-
Exchange differences	-	5,083	(127,345)	2,364	2,025	(117,873)
Additions	-	79,181	313,246	68,616	-	461,043
At 31 December 2007	<u>4,606,026</u>	<u>341,221</u>	<u>424,792</u>	<u>80,388</u>	<u>607,299</u>	<u>6,059,726</u>
Accumulated amortisation						
At 1 January 2007	-	-	-	-	-	-
Charge for the year	-	(4,265)	(3,868)	-	-	(8,133)
At 31 December 2007	<u>-</u>	<u>(4,265)</u>	<u>(3,868)</u>	<u>-</u>	<u>-</u>	<u>(8,133)</u>
Carrying amount						
At 31 December 2007	<u>4,606,026</u>	<u>336,956</u>	<u>420,924</u>	<u>80,388</u>	<u>607,299</u>	<u>6,051,593</u>
Company					Mineral develop- ment rights	
					£	
Cost						
At 1 January 2007					393,653	
Additions					2,690	
At 31 December 2007					<u>396,343</u>	

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

9. INTANGIBLE FIXED ASSETS (continued)

For the period 16 May 2006 to 31 December 2006

Group	Goodwill	Mineral develop- ment rights	Total
	£	£	£
Cost and carrying amount			
At 16 May 2006	4,606,026	630,550	5,236,576
Additions	-	479,980	479,980
	<hr/>	<hr/>	<hr/>
At 31 December 2006	<u>4,606,026</u>	<u>1,110,530</u>	<u>5,716,556</u>
Company		Mineral develop- ment rights	
		£	
Cost and carrying amount			
At 16 May 2006		300,000	
Additions		93,653	
		<hr/>	
At 31 December 2006		<u>393,653</u>	

Grouping of the intangible assets of the Group has changed from that of 31 December 2006 for presentational purposes to improve understanding of underlying balances.

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 1 of Ruby 691 Farm which is 108.2 hectares in area.

The Group tests annually for impairment of goodwill. The recoverable amounts of the cash generating unit (“CGU”), the mine, 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 year. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the mine. The growth rates and selling prices are based on information in the competent persons report.

Having prepared impairment testing, no impairment has been identified, and therefore no impairment loss has been recognised in either year.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

10. PROPERTY PLANT AND EQUIPMENT

For the year ended 1 January 2007 to 31 December 2007

Group	Plant £	Mining fleet £	Land and buildings £	Other tangible assets £	Total £
Cost					
At 1 January 2007	2,655,794	672,581	73,484	48,240	3,450,099
Additions	1,247,602	320,949	57,829	113,689	1,740,069
Exchange differences	66,760	17,073	2,620	4,229	90,682
Disposals	-	-	-	(3,322)	(3,322)
At 31 December 2007	<u>3,970,156</u>	<u>1,010,603</u>	<u>133,933</u>	<u>162,836</u>	<u>5,277,528</u>
Accumulated depreciation					
At 1 January 2007	-	(25,953)	(242)	(2,823)	(29,018)
Charge for the year	(48,899)	(207,491)	(10,356)	(23,075)	(289,821)
At 31 December 2007	<u>(48,899)</u>	<u>(233,444)</u>	<u>(10,598)</u>	<u>(25,898)</u>	<u>(318,839)</u>
Carrying amount					
At 31 December 2007	<u><u>3,921,257</u></u>	<u><u>777,159</u></u>	<u><u>123,335</u></u>	<u><u>136,938</u></u>	<u><u>4,958,689</u></u>

For the period 16 May 2006 to 31 December 2006

Group	Plant £	Mining fleet £	Land and buildings £	Other tangible assets £	Total £
Cost					
At 16 May 2006	-	-	71,707	12,319	84,026
Acquisition during period	2,655,794	672,581	1,777	35,921	3,366,073
At 31 December 2006	<u>2,655,794</u>	<u>672,581</u>	<u>73,484</u>	<u>48,240</u>	<u>3,450,099</u>
Accumulated depreciation					
At 16 May 2006	-	-	-	-	-
Charge for the period	-	(25,953)	(242)	(2,823)	(29,018)
At 31 December 2006	<u>-</u>	<u>(25,953)</u>	<u>(242)</u>	<u>(2,823)</u>	<u>(29,018)</u>
Carrying amount					
At 31 December 2006	<u><u>2,655,794</u></u>	<u><u>646,628</u></u>	<u><u>73,242</u></u>	<u><u>45,417</u></u>	<u><u>3,421,081</u></u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

10. PROPERTY PLANT AND EQUIPMENT (continued)

Grouping of the tangible assets of the Group has changed from that of 31 December 2006 for presentational purposes. Comparative results were changed accordingly. Other tangible assets now include vehicles and fixtures and equipment. Land and buildings, which were presented separately, have now been combined.

Company	Fixtures and equipment £
Cost and carrying value at 1 January 2007	3,322
Written off during the year	(3,322)
	<hr/>
Carrying value at 31 December 2007	-
	<hr/> <hr/>

Company	Fixtures and equipment £
Cost and carrying value at 16 May 2006	-
Additions	3,322
	<hr/>
Cost and carrying value at 31 December 2006	3,322
	<hr/> <hr/>

11. INVESTMENT IN SUBSIDIARIES

For the year ended 1 January 2007 to 31 December 2007

Company	£
Cost and carrying amount	
At 1 January 2007 and 31 December 2007	4,217,500
	<hr/> <hr/>

For the period 16 May 2006 to 31 December 2006

Company	£
Cost and carrying amount	
At 15 May 2006 and 31 December 2006	4,217,500
	<hr/> <hr/>

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.

For a list of subsidiaries, please refer to note 21.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

12. INVENTORIES

Group	2007	2006
	£	£
Work in progress		
Cost and carrying amount at beginning of period	1,052,000	1,052,000
Effect of translation	(137,84)	-
Impairment of inventories	(84,73)	-
Amortisation	(72,26)	-
Foreign exchange loss	(2,35)	-
	<hr/>	<hr/>
Carrying amount at end of period	754,76	1,052,000
Diamond inventories	198,758	-
Consumable and other inventories	32,526	-
	<hr/>	<hr/>
	986,049	1,052,000
	<hr/> <hr/>	<hr/> <hr/>

At 31 December 2007 diamond inventories amounted to 11,522 carats. 6,529 carats were sold at tender on 31 January 2008 resulting in a write-down of £84,737. The remaining 4,993 carats were carried at zero value in inventory.

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. Amortisation of work in progress in the amount of £72,264, based on the units of production method, was recorded in 2007.

13. OTHER RECEIVABLES

	Group	Group	Company	Company
	2007	2006	2007	2006
	£	£	£	£
Receivables due from Group undertakings	-	-	8,749,747	7,410,469
Prepayments and other receivables	136,495	259,754	10,079	1,838
	<hr/>	<hr/>	<hr/>	<hr/>
	136,495	259,754	8,759,826	7,412,307
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

14. OTHER PAYABLES

	Group	Group	Company	Company
	2007	2006	2007	2006
	£	£	£	£
Corporation tax	45,000	-	-	-
Accruals and deferred income	153,609	587,125	64,193	65,515
	<hr/>	<hr/>	<hr/>	<hr/>
	198,609	587,125	64,193	65,515
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

15. CONVERTIBLE LOAN NOTE

At 31 December 2006, a convertible loan note of £3,900,000 was in issue. Commission of 6% paid in respect of the placement was netted against the principal balance.

The note converted automatically into ordinary shares of the Company at two-thirds of the placing price upon admission of the Company to the Alternative Investment Market (AIM). The note was secured by a general floating charge over the assets of DiamondCorp plc. The note was interest free until 1 May 2007. Thereafter, the note would bear interest at the rate of 15% per annum, calculated monthly (on the basis of a 360 day year) and payable in cash monthly in arrears, until it was converted or redeemed. By mutual agreement between the Company and the note holder, the Company could redeem the loan note at any time by the payment in cash of the principal amount plus 50% and any accrued and outstanding interest.

The note contained a condition that, if the Company had not completed an IPO or redeemed the note by 1 November 2007, the Company would immediately redeem the note by the payment in cash of the principal amount plus 50% and any accrued and outstanding interest, plus an additional redemption sum of 6.75% of the principal payable for each calendar month between 1 May 2007 and 1 November 2007, eg commencing in June 2007.

The Company was admitted to AIM on 1 February 2007 and the note was converted to 6,500,000 ordinary shares of 3 pence each at a conversion price of 60 pence being two-thirds of the 90 pence placing that occurred simultaneously with admission to AIM.

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 2007:

- (i) £85,000 were paid to the following companies as Directors' remuneration:
 - Glendree Capital Management Limited (£54,000), a Company owned by P R Loudon;
 - Mining Finance Solutions (£20,000), a Company owned by E A Worthington;
 - Loeb Aron & Company Limited (£11,000), a Company where J Willis-Richards is a director;
- (ii) DiamondCorp Plc incurred no corporate advisory fees (31 December 2006 - £64,000) and no commissions (31 December 2006 - £45,972) from Loeb Aron & Company Limited ("Loeb Aron"), a Company of which both P R Loudon and J Willis-Richards are Directors and a Company which owns more than 3% of the issued shares. In addition, in reference to fundraisings completed by Loeb Aron, Loeb Aron was granted a warrant to purchase 750,000 shares for a period of two years from the date of admission to the Alternative Investment Market, exercisable at 35 pence per ordinary share (250,000 warrants to purchase ordinary shares at 105 pence per share following the share consolidation - notes 17 and 18).

In addition, during the year ended 31 December 2007:

- (i) DiamondCorp Plc incurred rent of £25,000 from Loeb Aron & Company Limited (31 December 2006 - £15,625).
- (ii) Lace incurred consulting fees of £4,242 (2006 £73,875) from The Mineral Corporation, a Company in which G Robbertze, a director of Lace, is a principal.

Company

The company held a loan to Diamondcorp Holdings Limited of £8,732,619 (2006 £7,393,342) and to Lace Diamond Mining (Pty) Limited of £17,127 (2006 £17,127).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

17. SHARE CAPITAL

	2007		2006	
	£		£	
Authorised share capital				
166,666,666 ordinary shares of 3 pence each		5,000,000		5,000,000
		<u>5,000,000</u>		<u>5,000,000</u>
	No.	£	No.	£
Called up, allotted and fully paid				
Ordinary shares of 3 pence each	34,770,408	1,043,112	24,737,073	742,112
	<u>34,770,408</u>	<u>1,043,112</u>	<u>24,737,073</u>	<u>742,112</u>

On 30 June 2006 every three ordinary shares of 1 pence each were consolidated into one ordinary share of 3 pence with no other change in the rights attached to the ordinary shares.

On 16 September 2006 the 2,130,000 Convertible Loan Notes were converted to 7,100,006 ordinary shares of 3 pence each at a price of 30 pence per share. (see note 17)

On 16 September 2006 the Company issued 3,815,000 ordinary shares of 3 pence each in respect of a private placement completed at 60 pence per ordinary share.

On 24 November 2006 the Company issued 1,322,000 ordinary shares of 3 pence each in respect of a private placement completed at 60 pence per ordinary share.

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 (see Note 15).

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

18. RESERVES

For the year ended 31 December 2007

Group	Warrant reserve £	Share option reserve £	Share premium account £	Retained losses £	Translation reserve £
At 1 January 2007	641,667	-	8,534,095	(899,519)	-
Loss for the year	-	-	-	(2,101,251)	-
(Exercise of warrants)/Share premium on exercise	(86,167)	-	86,167	-	-
Premium arising on issue of equity shares	-	-	6,074,999	-	-
Value of warrants over ordinary shares	185,449	-	-	-	-
Grant of share options	-	282,790	-	-	-
Movement during the year	-	-	-	-	82,537
Issue costs	-	-	(578,955)	-	-
At 31 December 2007	<u>740,949</u>	<u>282,790</u>	<u>14,116,306</u>	<u>(3,000,770)</u>	<u>82,537</u>

Company	Warrant reserve £	Share option reserve £	Share premium account £	Retained losses £
At 1 January 2007	641,667	-	8,534,095	(529,549)
Loss for the year	-	-	-	(1,078,764)
(Exercise of warrants)/Share premium on exercise	(86,167)	-	86,167	-
Premium arising on issue of equity shares	-	-	6,074,999	-
Issue of warrants over ordinary shares	185,449	-	-	-
Grant of share options	-	282,790	-	-
Issue costs	-	-	(578,955)	-
At 31 December 2007	<u>740,949</u>	<u>282,790</u>	<u>14,116,306</u>	<u>(1,608,313)</u>

For the period 16 May 2006 to 31 December 2006

Group	Warrant reserve £	Equity reserve £	Share premium account £	Retained losses £
At 15 May 2006	641,667	2,002,800	4,004,713	(100,473)
Loss for the period	-	-	-	(799,046)
Premium arising on issue of equity shares	-	-	4,717,890	-
Issue of warrants over ordinary shares	-	(2,002,800)	-	-
Issue costs	-	-	(188,508)	-
At 31 December 2006	<u>641,667</u>	<u>-</u>	<u>8,534,095</u>	<u>(899,519)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

18. RESERVES (continued)

Company	Warrant reserve £	Equity reserve £	Share premium account £	Retained losses £
At 15 May 2006	641,667	2,002,800	4,004,713	(100,473)
Loss for the period	-	-	-	(429,076)
Premium arising on issue of equity shares	-	-	4,717,890	-
Issue of warrants over ordinary shares	-	(2,002,800)	-	-
Issue costs	-	-	(188,508)	-
At 31 December 2006	<u>641,667</u>	<u>-</u>	<u>8,534,095</u>	<u>(529,549)</u>

Warrant reserve

	Warrants in issue	Warrant reserve £
Group and Company At 31 December 2007	<u>6,466,655</u>	<u>740,949</u>
Group and Company At 31 December 2006	<u>5,999,990</u>	<u>641,667</u>

Stock Option Reserve

	Stock options in issue	Stock option reserve £
Group and Company At 31 December 2007	<u>2,940,000</u>	<u>282,790</u>
Group and Company At 31 December 2006	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

18. RESERVES (continued)

Valuation

(i) Warrants granted during the period from 22 March 2005 to 15 May 2006 were valued by the Directors using the Black-Scholes valuation model, based upon the following assumptions:

- Term range of one to three ½ years
- Expected dividend yield of nil
- Risk free interest rate of 5%
- Share price volatility of 55%
- Current share price of 15 pence (45 pence post share consolidation - see note 17).

The number of warrants, warrant exercise prices and nominal share values referred to below reflect the share structure after the share consolidation which occurred on 30 June 2006. Following the share consolidation, all warrant exercise prices and nominal share values increased by a factor of three. The number of warrants reduces by a factor of three.

(ii) Share options granted during the year ended 31 December 2007 were valued by the Directors using the Black-Scholes valuation model, based upon the following assumptions:

- Term range of three years
- Expected dividend yield of nil
- Risk free interest rate of 5%
- Share price volatility of 40%
- Current share price of 90 pence.

The number of warrants, warrant exercise prices and nominal share values referred to below reflect the share structure after the 3:1 share consolidation which occurred on 30 June 2006.

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 expire on 30 April 2008. 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.

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 that date which is 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

18. RESERVES (continued)

Other Warrants

- (i) 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.
- (ii) 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.
- (iii) 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 3 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.

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 ten 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.

	Number of share options	2007 Weighted average exercise price (£)
Outstanding at beginning of period	-	
Granted during the period	2,940,000	135p
Forfeited during the period	-	
Exercise during the period	-	
Expired during the period	-	
	<hr/>	
Outstanding at the end of the period	2,940,000	135p
	<hr/> <hr/>	
Exercisable at the end of the period	270,000	135p
	<hr/> <hr/>	

The options outstanding at 31 December 2007 had a weighted average exercise price of 135p, and a weighted average remaining contractual life of 9 years. The aggregate of the estimated fair values of the options granted on those dates is £977,000. No options were granted or outstanding in 2006.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

19. SHARE BASED PAYMENTS (continued)

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

	2007	2006
Weighted average share price	90p	-
Weighted average exercise price	135p	-
Expected volatility	40%	-
Expected life	3 years	-
Risk-free rate	5%	-
Expected dividend yields	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.

The Group recognised total expenses of £282,790 relating to equity-settled share-based payment transactions in 2007. No expense had previously been recognised.

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		Company	
	Carrying value		Carrying value	
	2007	2006	2007	2006
	£	£	£	£
Financial assets				
Loans and receivables (including cash and cash equivalents)	1,330,707	2,822,089	10,015,115	8,503,527
Financial liabilities				
Amortised cost	94,382	4,198,625	-	3,666,000

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
Year ended 31 December 2007

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 no change to the Group's exposure to market risks or to the manner in which it measures and manages the risk.

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	
	2007	2006
	£	£
Cash denominated in foreign currency	100,709	280,863
	<u>100,709</u>	<u>280,863</u>

Foreign currency sensitivity analysis

The Group is only exposed to the currency of South Africa (Rand).

The following table details the Group's sensitivity to a 20% increase and decrease in the Sterling against South African Rand. 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	
	2007	2006
	£	£
Loss	(12,000)	(55,000)
	<u>(12,000)</u>	<u>(55,000)</u>

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

In management's opinion, the impact of the sensitivity analysis is representative, but the 2006 impact is unrepresentative, because the Company was holding an unrepresentative amount of Rand in anticipation of an instalment payment due to the contractors building the Lace plant.

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007

20. FINANCIAL INSTRUMENTS (continued)

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. All amounts are repayable within 1 year.

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Non-interest bearing	94,382	4,198,625	-	3,666,000

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.

	Group		Company	
	Weighted average effective interest rate	Less than 1 month	Weighted average effective interest rate	Less than 1 month
	%	£	%	£
2007				
Non-interest bearing	-	289,342	-	9,015,115
Fixed interest rate instruments	7.02 %	1,041,365	5.8%	1,000,000
		<u>1,330,707</u>		<u>10,015,115</u>
2006				
Non-interest bearing	-	1,181,683	-	8,503,527
Fixed interest rate instruments	7.88 %	1,640,406	-	-
		<u>2,822,089</u>		<u>8,503,527</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2007**21. SUBSIDIARIES**

Details of the Company's subsidiaries at 31 December 2007 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 (1)	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

(1) Formerly named Crown Diamond Mining Limited

Soapstone Investments (Pty) Limited was incorporated on 30 November 2006 and was set up as an investment Company in South Africa

22. CONTINGENT LIABILITY

The Company is making application to list on the Johannesburg Stock Exchange in March 2007. On successful listing the Company would incur professional advisory fees of £250,000 (ZAR 3,500,000).