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DIAMONDCORP PLC

Audited Consolidated Annual Financial Statements For the year ended 31 December 2012

DIAMONDCORP PLC

REPORT AND FINANCIAL STATEMENTS

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DIAMONDCORP PLC

REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISORS

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R N Allen
P R Loudon
J Willis-Richards
G K Morton
M Toxvaerd (appointed 1 May 2012)

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PREPARER OF FINANCIAL STATEMENTS

These financial statements have been prepared under the supervision of J C Forrest, Chief Financial Officer

DIAMONDCORP PLC

LETTER FROM THE CHAIRMAN AND CHIEF EXECUTIVE

Dear Shareholder

We are very pleased and proud to have completed a financing package for development of the first block cave at the Lace Mine We achieved this success during 2012 in the toughest market conditions that we have experienced in our careers and have done it with minimal dilution for existing shareholders

The results from an underground bulk sample completed in Q4 2011 were sufficiently positive for our advisors to recommend that the Company proceed to a full engineering study on an underground mine We appointed SRK Consulting (South Africa) (Pty) Ltd , ("SRK") to produce an independent report which was completed in March 2012 and recommended that we initiate mining with a block cave on the 47 Level (-470m below surface)

European banks remained uninterested in anything but the most secure lowest risk mining project but after reviewing the SRK report, a number of South African banks showed enthusiasm for the provision of debt finance to develop the Lace Mine and your Board deemed that the most attractive proposal received was from the Industrial Development Corporation of South Africa ("IDC")

Lace Mine financing package

In May last year, we received a draft Terms Sheet indicating that the IDC would lend Lace Diamond Mines ("Lace"), our 74% owned operating subsidiary, R280 million (US$33 6 million) for underground mine development and the purchase of mining equipment The IDC's lengthy due diligence, financial modelling and risk assessment process regrettably coincided with worsening world economic conditions exacerbated by the Greek debt crisis As a consequence, it was agreed that the IDC would lend Lace R220 million (US$26 7 million), representing approximately 77% of the estimated R285 million peak funding requirement for the 47 Level block cave development, including new underground ramps, crusher and conveyor system This sum estimated by the Company's engineers and consultants included a 15% contingency

For its part, DiamondCorp agreed to arrange additional funding of R100 million to be advanced to Lace prior to the initial drawdown of the IDC debt facility, meaning a total R320 million funding package would be provided, including a 33% contingency on the Company s forecast capital budget The principal amount of the loan and initial drawdown condition differed from the original IDC Terms Sheet after the parties agreed that increasing the total amount available for the project would be prudent in the light of challenging macroeconomic conditions and rand volatility which has a potential major impact on capital and input costs, particularly diesel, steel, tyres and conveyor belting In other respects, the major commercial terms of the loan remained unchanged

The IDC loan is secured over the assets of Lace and guaranteed by DiamondCorp plc The term of the loan is 7 years with an interest rate of 2% above the South African Prime Lending Rate (which is currently 8 5%), such interest to be capitalised for the first two years from the initial drawdown date, which can be anytime up to 31 July 2014 We anticipate initial drawdown will be in Q3 this year and interest will be calculated semi-annually in arrears thereafter, with a two year moratorium on loan repayments from the first drawdown date

To raise the additional R100 million we appointed Rand Merchant Bank and PSG Capital as advisors and arrangers in South Africa to raise up to R150 million through an issue of convertible bonds There was a good response to marketing these bonds but as potential investors carried out their due diligence, strikes at the South African platinum mines culminated in the shooting of rioters at Marikana Unsurprisingly, this sad event caused many institutions to withdraw their interest in any mining company investment and only R40 million of bonds were placed in SA, conditional on the balance of funds being raised elsewhere

We turned to the London capital markets to fill the gap, but with the fallout from the European banking crisis combined with intense media coverage of events on the South African platinum mines, sentiment in the UK was not much better However, supported by core investments from some of our largest shareholders, we succeeded in placing £1 0 million of new equity and a further £1 4 million of convertible bonds, which are parallel in most respects to the South African instrument

LETTER FROM THE CHAIRMAN AND CHIEF EXECUTIVE

Lace Mine financing package (continued)

While we were in the process of finalising documentation for the bond issue, Laurelton Diamonds Inc , a wholly owned subsidiary of leading jewellery firm Tiffany & Co , heard that we were close to financing Lace Earlier in the year, Laurelton had shown strong interest in the Lace product, visited the mine and viewed the bulk sample Negotiations led to an offer of US$6 million as a term loan from Laurelton in exchange for the right to purchase, on commercial terms related to fair market value, diamond production from the Lace Mine The Off-take Agreement is subject to any purchases by the South African State Diamond Trader and will be for stones which meet the high quality and colour characteristics required to yield Tiffany-standard polished diamonds Larger (over 10 5 carats) and special stones (any diamond worth more than $5,000 per carat) are excluded from the Off-take Agreement The balance of production that Tiffany does not purchase will be marketed by the Company in Johannesburg and Antwerp at regular intervals

Together, the convertible bonds, the new equity and the Laurelton loan total some R113 million, most of which has been advanced to Lace to satisfy the initial drawdown condition of the IDC loan

Lace Mine development schedule

The finance package was finalised in the first week of January 2013 with the signing of the Laurelton loan, allowing underground development to resume in earnest at Lace Over the next 12 months, the following development is planned

- Excavation of 66,500 cubic metres of surface material to establish a boxcut and new life of mine access ramp and portal into the underground workings

- Drilling and blasting of a 50m vent raise to by-pass a blockage in the old vertical shaft and provide sufficient temporary ventilation so that underground development can be undertaken to the 470m level

- Drilling and blasting of approximately 3,000m of underground tunnelling comprising a 4 5m x 4 5m men and materials access decline alongside a 5m x 3m conveyor belt decline at 12 degrees

- Approximately 2,000m of underground core drilling of the "bulge" area on the south-east side of the main pipe to define the extent of additional kimberlite which might be available for mining ahead of the block cave

- Design, fabrication and installation of approximately 1,000m of conveyor belting This conveyor will ultimately extend to the underground crushing chamber below the 47 level block cave and provide kimberlite feed for the plant

- Refurbishment of the 1 2 million tpa Lace processing plant, including essential modifications to allow the transition from treating tailings to treating underground kimberlite during 2014

The underground development is being undertaken by the Company's own mining teams using our fleet of 9 5-tonne low profile loaders, 20-tonne low profile dump trucks and face drilling rigs The experience that the Company gained during bulk sampling has demonstrated that considerable time and financial savings can be achieved with this approach as we are too small to demand the best rates and equipment from contractors We also understand that equipment availability is critical to high-speed underground development and have concentrated on building up a core competency in rebuilding our heavy equipment on-site to ensure our mining fleet gives us the performance we require This approach underscores our long-term commitment to underground mining and has allowed us to attract some high-calibre personnel with many years of experience in underground kimberlite mining

DIAMONDCORP PLC

LETTER FROM THE CHAIRMAN AND CHIEF EXECUTIVE

Diamond prices

Diamonds are raw materials in luxury goods manufacturing and diamond prices are therefore a reflection of the health of the world economy World markets remain volatile and demand for luxury goods has been dampened as a consequence Nonetheless, diamond prices appear to have stabilised in the first few months of 2013, and market indicators look like we are starting to see early signs of recovery in the US which remains the world's biggest market for diamonds Diamond prices are expected to remain volatile until such time as a sustained economic recovery is achieved

The Company intends re-commissioning the Lace plant before the middle of 2013 with kimberlite tailings and we will then test the market in the second half of the year with sales of the diamonds we recover Depending on the prices achieved, the Company will assess if it is worth increasing tailings production ahead of kimberlite being mined from underground in 2014

Company strategy

It is very tempting for us to focus solely on the development of the Lace Mine which by any account is one of the most attractive diamond projects in the world today However, it is your Board's view that there are risks to being a one mine company and that with the skilled management team in place, we should be looking for other assets

In recent years, we have been offered diamond projects around the world but nothing has offered the financial returns or upside potential we consider necessary to be value accretive for shareholders and warrant the management attention required   We do not see value in most alluvial projects where it is difficult to budget or plan ahead and we are not prepared to take the risk of operating in the Democratic Republic of Congo or Angola at this time We believe that the high level of risk of grassroots exploration is not what our shareholders want and diversifying too far afield stretches the budget of a small company DiamondCorp's skills are in underground mining of kimberlites to which we can add the ability to find finance in the harshest of market conditions

Therefore, we will continue to look at new opportunities but you can be assured that they will only be in the diamond sector and that our due diligence and risk assessment process will remain intense while we will call on input from all our employees, directors, consultants and shareholders

In conclusion

In our statement a year ago, we wrote about the good and bad luck that had come our way This roller-coaster theme continued in 2012 but thanks to everyone's perseverance, enthusiasm and support, we are now on the way to developing the 47 Level block cave at Lace Once established, this should provide production for at least the next seven years, while subsequent block caves planned for the 670 and 850m levels will allow us to access the currently defined mine resource of 13 3 million carats over the next 25 years With the pipe open at depth, Lace should operate for longer than this

Our success would not have been possible without the great team we have in place at DiamondCorp and while thanking everyone in the Company and our consultants, we would like to single out Steve West, Chief Operating Officer and Andre Labuschagne, the new Lace Mine manager who maintained the morale of the workforce at the mine during a testing year

We have been humbled by everyone's efforts to secure development of the Lace Mine and, although a lot of hard work remains to be done, we look forward to an exciting future for Lace and the Company

Euan A Worthington

Euan Worthington
Chairman

Paul Loudon
Chief Executive

DIAMONDCORP PLC

FINANCIAL REPORT

RESULTS

The loss for the year was £3,534,940 (2011 - loss of £4,239,146) which included the following items

	2012	2011
	£	£
Depreciation and amortisation	(669,656)	(918,291)
Other administrative expenses	(2,401,520)	(2,042,690)
Write off of tailings inventory	(275,561)	-
Gain on insurance settlement	-	2,195,816
Other income	-	11,048
Impairment of intangible asset	-	(2,373,616)
Write off of Botswana project	-	(1,013,032)
Finance costs	(137,707)	(123,066)
Effective interest on bonds and movement in fair value	(76,082)	-
Investment revenues	25,586	24,685

SHARE CAPITAL AND LONG TERM LOAN

In October 2012 the Company placed 28,571,430 shares at 3 5 pence each for gross proceeds of £1 million, taking the number of shares in issue to 270,839,478 at 31 December 2012

As of this date the Company has 275,339,478 shares issued

During 2012 the Company negotiated and completed (with the exception of item (iii) below which was completed in 2013) a financing package for the Lace Mine which is described in the Letter from the Chairman and Chief Executive and which consisted of

(i) a loan commitment of R220 million from the Industrial Development Corporation of South Africa Limited ("IDC") The first drawdown under this facility will occur in 2013 (note 18),
(ii) £4 3 million of convertible bonds placed in South Africa and UK (note 16),
(iii) a US$6 0 million loan and off-take agreement with Laurelton Diamonds, Inc a wholly-owned subsidiary of Tiffany & Co (note 27)

It is a condition precedent of the IDC facility that R100 million of additional funding be provided to Lace subsequent to 20 September 2012 Approximately R64 million has been provided to this date and the remainder will be provided once the South African bonds are listed on the Johannesburg Stock Exchange which is expected in May 2013

BALANCE SHEET, CASHFLOW AND WORKING CAPITAL

During 2012 the Group raised £950,001 net of costs from the placement of shares (2011 - £5,251,318), £50,000 from a director loan (which is outstanding as at the year end) and £3,911,944 from the sale of convertible bonds net of issue costs £100,000 of the convertible bond proceeds was in settlement of a further director loan advanced in the year with another £100,000 in settlement of outstanding remuneration due to a director

The cash raised from these financing activities, totalling £4,911,945 (2011 - £5,251,318), was used primarily as follows

(i) £850,034 (2011 - £376,794) was invested in property, plant and equipment at the Lace mine,
(ii) £2,185,843 was used in operating activities (2011 - £160,836 provided by operating activities),
(iii) In 2011, £3,996,606 was spent on intangible assets, primarily development of the underground mine at Lace, such expenditures have been classified in 2012 as construction in progress under property, plant and equipment,
(iv) In 2011, £2,308,016 was used to fully discharge the AOF loan

Cash increased to £4,319,776 at 31 December 2012 from £2,632,760 at the prior year end

OTHER DEVELOPMENTS

In 2013, as mentioned above, the Company completed a loan and off-take agreement with Laurelton Diamonds, Inc in the amount of US$6 0 million This was received in two equal instalments on 10 January and 10 April 2013

JC Forrest
Chief Financial Officer

10 May 2013

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 Membership of the Committee comprises Nick Allen as Chairman together with Jonathan Willis-Richards and Michael Toxvaerd

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

Remuneration for the year 1 January 2012 to 31 December 2012

	Date appointed	Salary or fee £	Benefits in kind £	Fees paid to third party £	Total £	Options granted Number
E A Worthington	18 May 2006	70,000	-	-	70,000	-
R N Allen	29 Mar 2005	12,000	-	-	12,000	-
P R Loudon (1) (2)	29 Mar 2005	64,583	7,500	91,458	163,541	-
J Willis-Richards (1)	18 May 2006	-	-	12,000	12,000	-
G K Morton (3)	21 April 2010	12,000	-	-	12,000	-
M Toxvaerd (3)	1 May 2012	-	-	8,000	8,000	
		158,583	7,500	111,458	277,541	-

Remuneration for the year 1 January 2011 to 31 December 2011

	Date appointed	Salary or fee £	Benefits in kind £	Fees paid to third party £	Total £	Options granted Number
E A Worthington	18 May 2006	70,000	-	-	70,000	-
R N Allen	29 Mar 2005	12,000	-	-	12,000	-
P R Loudon (2)	29 Mar 2005	77,500	-	60,000	137,500	-
J Willis-Richards (1)	18 May 2006	-	-	12,000	12,000	-
S Benkhadra (3)	21 April 2010	8,667	-	-	8,667	-
G K Morton (3)	21 April 2010	-	-	12,000	12,000	-
		168,167	-	84,000	252,167	-

(1) Includes amounts paid to Loeb Aron & Company Limited for the directors' fees of Dr Willis-Richards where both Dr Willis-Richards and Mr Loudon are Directors
(2) Includes amounts paid to Glendree Capital Management Limited where Mr Loudon is a Director
(3) Includes amounts paid to European Islamic Investment Bank plc where Mr Michael Toxvaerd is an officer Mr Toxvaerd was appointed to the Board on 1 May 2012, Mr Benkhadra resigned from the Board on 19 September 2011 and Mr Morton ceased to represent EIIB on 31 December 2011

The Directors received no pension contributions

DIAMONDCORP PLC

DIRECTORS' REPORT

The Directors present their report on the affairs of the Group, together with the financial statements and independent auditors' reports, for the year ended 31 December 2012

PRINCIPAL ACTIVITIES

The Directors' Report should be read in conjunction with the Letter from the Chairman and Chief Executive 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 Mines (Pty) Limited, a Company involved in mining at the Lace diamond mine in South Africa In November 2006 Soapstone Investments (Pty) Limited was incorporated in South Africa It is wholly-owned by DHL and has been established primarily as an investment Company to evaluate other investment opportunities in Southern Africa DiamondCorp plc is a dual listed company, with primary listings on the AIM in London and the AltX in Johannesburg

BUSINESS REVIEW

DiamondCorp's 74%-owned Lace diamond mine is located 200km southwest of Johannesburg in the Free State Province of South Africa The project comprises the Lace kimberlite which has the potential to support a +25-year underground mining operation and tailings from previous mining operations Approximately 33 million tonnes of kimberlite have been outlined in the main Lace pipe between the 240m and the 855m level, containing an estimated 13 3 million carats of diamonds at an average estimated grade of 40 carats per hundred tonnes (cpht) Late in 2008, the Department of Minerals and Energy granted a mining right for the Lace underground development, which was executed in Welkom on 5 February 2009

Development of the underground mine commenced in 2009 but was halted in July that year when the Mine was put on care and maintenance Development resumed in April 2010 leading to a bulk sample being extracted in 2011 In 2012 the mine was again put in care and maintenance while the Company pursued a financing package for the development cost

CORPORATE SOCIAL RESPONSIBILITY

Since acquiring the mining rights to the Lace Diamond Mine in February 2009, DiamondCorp Plc has been committed to the continued development of the local community As a junior production and development company on a restricted budget, one of the main challenges has been managing the expectations and demands presented to the Company DiamondCorp has an on-going socio-economic programme and expansion of projects will continue as the Lace Mine moves into production and generates earnings The main focus is on the training and development of staff through programmes aimed at building individual skill sets which in turn builds upon the Company's core competencies covering a wide variety of areas from underground mining to on-site workshop refurbishment expertise

The Company has refurbished the local farm school where classrooms have been equipped with textbooks, interactive learning equipment and an outside gym, We have also purchased equipment for local secondary school pupils

KEY PERFORMANCE INDICATORS

The Directors do not believe that there are any key performance indicators which would be useful

PRINCIPAL RISKS AND UNCERTAINTIES

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

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Mining and Recovery Risk

The mining of kimberlites from underground which uses explosives in confined spaces involves an inherent degree of risk including geological, geotechnical and seismic factors There may also be mechanical accidents and water difficulties caused by heavy rain on surface The recovery plant can also be subject to breakdowns, mechanical failures and power outages while some diamonds in the ore may escape capture

Diamond Price Risk

The Company s revenues will be predominately derived from the sale of rough gem diamonds The prices of these diamonds are dependent on the demand for jewellery containing cut diamonds together with the supply of these stones Demand is influenced by a number of factors including global economic conditions and consumer spending patterns The largest market for gem diamonds is currently the USA but in recent years, China has exhibited the highest growth profile and will become the No 1 consumer in the next couple of years

Legal and Regulatory Risk

DiamondCorp currently only operates in South Africa where it owns 74% of Lace Diamond Mines and is fully BEE compliant Lace has all permits to operate a mine in place and is subject to governance by the SA Department of Mineral Resources However, there is no guarantee that regulations will not change to cover operations, ownership levels, royalties, tax rates or other matters

Dependence on key personnel

The Group is dependent on the services of the current and future senior management team Mining is a global industry which is currently suffering a shortage of professional skills and the retention of staff cannot be guaranteed The loss of any key employees or consultants may have an adverse effect on the Group's future operations

Health, Safety and Environment

As a one mine company, DiamondCorp s performance is aligned to its policies on Health, Safety and the Environment at the Lace mine It has strict policies to cover these matters and avoiding accidents is of paramount importance The Company is subject to regulation and monitoring by South African authorities on these matters While management adopts every measure to comply with the regulations there is no surety that accidents or heavy rainfall might not lead to penalties for non-compliance In addition, stricter standards may be imposed which could increase the future costs of underground mining and environmental compliance

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) Any revenues are transacted in USD Bank accounts in all three currencies are used to reduce any risk to exchange rate movements In 2012, the bulk of the Group's surplus cash was held in ZAR to manage the Group's exposure to foreign exchange movements in these currencies

Liquidity

See the discussion on Going Concern which follows

Credit risk

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

DIAMONDCORP PLC

DIRECTORS' REPORT

GOING CONCERN

In determining the appropriate basis of presentation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future, this being a period of not less than 12 months from the date of the approval of the financial statements The Group's business activities and goals are set out in the Letter from the Chairman and Chief Executive

As at 31 December 2012 the group had drawn down £4 3 million relating to the UK and South African convertible bonds, giving a cash balance of £4 3 million

As set out in note 16, the UK and South African convertible bonds are currently legally repayable on demand in cash, for an amount equal to the value of shares calculated under the conversion formula The current Group share price of 4 3 pence is 35% lower than the share price required, if the convertible bonds are called, for the full repayment of the original principal amount of the UK and South African convertible bonds

Only once a special resolution is passed at a general meeting of shareholders, will the Group then have the option of settling the debt, if called, through the issue of a fixed amount of shares The directors plan to propose the necessary special resolution at the Annual General Meeting ("AGM"), scheduled for July 2013 Whilst the directors remain confident that the special resolution will be passed at the AGM and the holders will not seek early redemption of the convertible bonds prior to the AGM, if this were to take place the Group may have insufficient unrestricted cash to meet any amounts due which would be proportionate to the share price of the group After making an assessment of the likelihood of the convertible bonds being called prior to the special resolution being obtained and the Group's cash flow forecasts, the Directors have a reasonable expectation that the Group will continue to have sufficient funds available to meet any financial obligations in respect of the convertible bonds

Post year end the Group signed and on 10 April 2013 drew down the final tranche of the $6 million (£4 million) Laurelton loan Following this, the group has secured the full R100 million of additional funding required as a condition precedent for the drawdown of the R220 million (£15 7 million) IDC loan facility Subject to the successful completion of a number of remaining procedural conditions precedent, management is confident that the Group will be able to draw down on the IDC loan facility in the near future As at 19 April 2013 the Group had a cash balance of £5 6 million, which combined with the undrawn IDC loan facility, provides full funding for the development of the Lace mine The funding from the above convertible bonds and loans are restricted solely for that use

While all of the necessary finance for the development of the Lace mine has been secured, the restricted nature of those funds means the Company has insufficient cash to cover its corporate costs and will have to supplement its cash resources by accessing the equity markets in the imminent future

The requirement for the Company to raise additional equity funds in the imminent future indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern After making an assessment of the Group's ability to raise further equity funds, given the successful fundraisings in the current and prior years, the Directors have a reasonable expectation that the Group can raise additional equity funds as required and therefore they continue to adopt the going concern basis of preparation in the financial statements

SHARE CAPITAL

Details of movements in share capital are set out in note 21 to the financial statements

PAYMENT TO SUPPLIERS

It is the Company's and Group's policy to pay creditors when they fall due for payment or as agreed, which generally results in payment within 30 days

DIVIDENDS

No dividends were declared during 2012 (2011 - nil)

SUBSEQUENT EVENTS

See note 27

DIRECTORS

The Directors, who served during the year and to the date of this report were as follows

E A Worthington (British)
P R Loudon (Australian)
R N Allen (British)
J Willis-Richards (British)
G K Morton (British)
M H Toxvaerd (Danish) (appointed 1 May 2012)

The Directors who held office at 31 December 2012 have the following interests in the shares of the Company and options to purchase ordinary shares of the Company

	Convertible Bonds [1]	Vendor Warrants		Options to purchase ordinary shares of 3 pence each		Interest in ordinary shares of 3 pence each	
	2012	2012	2011	2012	2011	2012	2011
	£	No.	No.	No.	No.	No.	No.
E A Worthington	100,000	-	-	370,000	370,000	787,000	787,000
R N Allen	-	-	-	280,000	280,000	112,366	112,366
S Benkhadra ***	-	-	-	-	-	-	-
P R Loudon * **	100,000	-	833,333	2,550,000	2,550,000	3,138,052	3,138,052
G K Morton ***	-	-	-	-	-	441,979	441,979
M Toxvaerd ***	-	-	-	-	-	-	-
J Willis-Richards **	50,000	-	583,333	280,000	280,000	2,366,666	2,366,666

* The Vendor Warrants, which expired on 31 January 2012, were granted to Green Dragon Nominees Pty Limited of which Mr Loudon is a director

** The Vendor Warrants, which expired on 31 January 2012, were granted to Loeb Aron & Company Limited of which Dr Willis-Richards and P R Loudon are directors The bonds in which Mr Willis-Richards has an interest are held in the name of Loeb Aron & Company Limited In addition, during the year £8,000 was paid to Loeb Aron as commission on placing bonds

*** On 21 April 2010 S Benkhadra and G K Morton joined the Board as nominees of European Islamic Investment Bank plc Mr Benkhadra resigned from the Board on 19 September 2011 and Mr Morton ceased to represent EIIB on 31 December 2011 Mr Toxvaerd was appointed to the Board as nominee of EIIB on 1 May 2012

[1] Messrs Worthington and Loudon each took up £100,000 as part of the issue of the UK convertible bonds (see note 16)

Breakdown of Directors' options and movements during the year are as follows

	Scheme	1 Jan 2012	Granted	Exercised	31 Dec 2012	Exercise price	Vesting date	Expiry date
E A Worthington	2007 Plan	370,000	-	-	370,000	31p	25 Jan 2010	24 Jan 2017
R N Allen	2007 Plan	280,000	-	-	280,000	31p	25 Jan 2010	24 Jan 2017
P R Loudon	2007 Plan	690,000	-	-	690,000	31p	25 Jan 2010	24 Jan 2017
P R Loudon *	2010 Plan	1,860,000	-	-	1,860,000	5p	19 Aug 2011	18 Aug 2027
J Willis-Richards	2007 Plan	280,000	-	-	280,000	31p	25 Jan 2010	24 Jan 2017

* The options held by P R Loudon under the 2010 Plan vest equally over a three year period on each anniversary of the date of grant At the date of this report, 1,240,000 options vested under this scheme with a further 620,000 options vesting on 19 August 2013 During 2012, the Remuneration Committee resolved that the exercise price of these options was to be decreased from 12 pence to 5 pence

DIAMONDCORP PLC

DIRECTORS' REPORT

SUBSTANTIAL INTERESTS

At the date of the Directors' Report the following parties held in excess of 3% of the share capital of the Company

European Islamic Investment Bank plc	55,761,412	20 1%
The Bank of New York Nominees Limited	23,340,499	8 4%
HSBC Global Custody Nominee (UK) Limited	22,966,136	8 3%
TD Direct Investing Nominees (Europe) Limited	9,486,035	3 4%
Barclayshare Nominees Limited	8,297,206	3 0%

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made no political or charitable contributions during the year ended 31 December 2012 (2011 - nil)

AUDITORS

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

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

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

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

Declaration by Secretary

The Secretary certifies that the Company has lodged with the Registrar of Companies all such returns as are required of a public company, in terms of Section 88(e) of the South African Companies Act No 71 of 2008, as amended, and that all such returns are true correct and up to date

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

SM Hodgson

City Group PLC
Company Secretary

10 May 2013

DIAMONDCORP PLC

AUDIT COMMITTEE REPORT

Chairman
Jonathan Willis-Richards
Other members
Euan Worthington
Nick Allen
George Morton

All members of the Committee served throughout the year George Morton and Nick Allen are considered to be independent Non-Executive Directors Each member is deemed to be financially literate by virtue of their business experience and each member is considered by the Board to have recent and relevant financial experience and competence in accounting The Committee met once during the year and all the Committee members were present

Role and responsibilities

The primary function of the Audit Committee is to assist the Board in fulfilling its responsibilities with regard to financial reporting, external and internal audit, risk management and controls This includes

- monitoring and reviewing the Group's financial and accounting policies and practices,
- monitoring the integrity of the annual and half yearly financial statements and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgments relating to them,
- considering the reappointment of the external auditors,
- considering the scope of the annual external audit and the work undertaken by external auditors,
- reviewing and monitoring the independence of the external auditor and the provision of additional services by it,
- monitoring matters that influence or could distort the presentation of accounts and key figures,
- reviewing DiamondCorp's internal financial, operational and compliance controls and internal controls and risk management systems,
- assessing the need for DiamondCorp to implement an internal audit function,
- overseeing the Group's procedures for detecting fraud and handling allegations from whistle-blowers, and
- making recommendations to the Board for a resolution to be put to the shareholders for their approval on the appointment of the external auditors and to authorise the Board to fix the remuneration and terms of engagement of the external auditors

Governance processes

The Audit Committee usually invites the CFO, Group Financial Controller and the lead partners from the external auditors to attend each meeting Other members of management may attend as and when required The Committee also holds private sessions with the external auditors without members of management being present The Committee has adopted guidelines allowing non-audit services to be contracted with the external auditors on the basis as set out above

Main Activities

During the year, the Committee's principal work included the following

- reviewed the Company's policy for the provision of non-audit services by the external auditors,
- reviewed material engagements with the auditors in respect of non-audit services,
- reviewed the policies detecting, reporting and preventing fraud and serious breaches of business conduct and whistleblowing procedures,
- evaluated the effectiveness of the external auditors,
- reviewed and agreed the global audit plan, scope and fees of the audit work to be undertaken by the external auditors,
- considered the output from the Group-wide process used to identify, evaluate and mitigate risks,
- monitored and reviewed the effectiveness of DiamondCorp's internal controls,
- reviewed and discussed the full year (audited) financial statements with management and the external auditors,

Main Activities (continued)

- discussed various material accounting issues with management and the external auditors, particularly those involving key judgements and estimates primarily in relation to fair value measurements and impairment considerations, and
- reviewed and agreed the preparation and scope of the year end reporting process

Reappointment of external Auditor

The Committee has recommended to the Board that a proposal be put to shareholders at the 2013 AGM for the reappointment of Deloitte LLP and Deloitte & Touche as external auditors There are no contractual restrictions on the Company's choice of external auditor, and in making our recommendation we took into account, amongst other matters, the objectivity and independence of Deloitte LLP and Deloitte & Touche and their continuing effectiveness

Jonathan Willis-Richards
Audit Committee Chairman

DIAMONDCORP PLC

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 UK Corporate Governance Code, the Company complies with the main provisions 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 to be 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 an Executive Chairman, a Managing Director and four Non-Executive Directors The senior Non-Executive Director is Nick Allen

Supply of information

To enable the Board to function effectively and allow the Directors to discharge their responsibilities, full and timely access is given to all relevant information The Board receives reports from the Managing Director on a quarterly basis In addition

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

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

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

Committees

The Remuneration Committee

The Remuneration Committee reviews the performance of the Executive Director and sets the scale and structure of his remuneration including bonus arrangements The Remuneration Committee also sets the allocation of share options to Directors and other employees Membership of the Committee comprises Nick Allen as Chairman together with Jonathan Willis-Richards and Michael Toxvaerd

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, bonus on results and longer-term rewards in the form of share options Vesting period of the stock option plan is shorter than required by the UK Corporate Governance Code

The Nomination Committee

The nomination committee has been established to recommend additions to the Board It comprises Euan Worthington (Chairman), Nick Allen and Jonathan Willis-Richards

Audit Committee

The Board of Directors have 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 comprises Jonathan Willis-Richards (Chairman), Euan Worthington, Nick Allen and George Morton The Committee meets regularly and is joined by the external auditors at least annually

DIAMONDCORP PLC

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

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

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosure when compliance with the specific 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, and
- make an assessment of the Group and Company's ability to continue as a going concern

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

Report on the financial statements

We confirm that to the best of our knowledge

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

P R Loudon
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DIAMONDCORP PLC

We have audited the financial statements of DiamondCorp plc for the year ended 31 December 2012 which comprise the Consolidated and Company Income Statements, the Consolidated Statement of Comprehensive Income and Expense, the Consolidated and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's and the parent company's loss for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern The Group incurred a net loss attributable to the equity holders of the parent of £3,016,615 and the company incurred a net loss of £1,039,777 for the year ended 31 December 2012 As described in note 1 to the financial statements, the Directors have prepared cash flow forecasts which indicate the business will require additional funding to fund corporate costs The requirement to raise additional equity finance, along with other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

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

Christopher Thomas (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Date 10 May 2013

Deloitte.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DIAMONDCORP PLC

Independent Auditor's Report to the members of DiamondCorp plc

We have audited the consolidated and separate annual financial statements of DiamondCorp plc as set out on pages 22 to 64 which comprise the statements of financial position as at 31 December 2012 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information

Directors' Responsibility for the Financial Statements

The Group's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of DiamondCorp plc and its subsidiaries as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DIAMONDCORP PLC (continued)

Emphasis of Matter - Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern The Group incurred a net loss attributable to the equity holders of the parent of £3,016,615 and the company incurred a net loss of £1,039,777 for the year ended 31 December 2012 As described in note 1 to the financial statements, the Directors have prepared cash flow forecasts which indicate the business will require additional funding to fund corporate costs The requirement to raise additional equity finance, along with other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2012, we have read the Directors' Report, Company Secretary's Certificate and the Audit Committee Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements These reports are the responsibility of the respective preparers Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements

However, we have not audited these reports and accordingly do not express an opinion on these reports

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per Alan Munitich
Partner

Date 10 May 2013

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2012

	Note	2012 £	2011 £
Depreciation and amortisation		(669,656)	(918,291)
Other administrative expenses		(2,401,520)	(2,042,690)
Total administrative expenses		(3,071,176)	(2,960,981)
Gain on insurance settlement		-	2,195,816
Other income		-	11,048
Write off of tailings inventory		(275,561)	-
Impairment of intangible asset		-	(2,373,616)
Write off of Botswana project		-	(1,013,032)
OPERATING LOSS	3	(3,346,737)	(4,140,765)
Investment revenues		25,586	24,685
Finance costs		(137,707)	(123,066)
Fair value movement on convertible bonds	16	(44,821)	-
Effective interest cost on convertible bonds	16	(31,261)	-
LOSS BEFORE TAX		(3,534,940)	(4,239,146)
Tax	6	-	-
LOSS FOR THE FINANCIAL YEAR		(3,534,940)	(4,239,146)
ATTRIBUTABLE TO:			
Equity holders of the parent		(3,016,615)	(3,823,586)
Non controlling interest	23	(518,325)	(415,560)
		(3,534,940)	(4,239,146)
BASIC AND DILUTED LOSS PER SHARE	7	(1 22p)	(1 87p)
HEADLINE LOSS PER SHARE*	7	(1 22p)	(2 43p)

All of the activities of the Group are classed as continuing

* The Group presents an alternative measure of loss per share after excluding all capital gains and losses from the loss for the financial year (see note 7)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENSE
Year ended 31 December 2012

	2012 £	2011 £
Net loss	(3,534,940)	(4,239,146)
Foreign exchange on translation of overseas operations	(1,046,352)	(2,443,288)
Total comprehensive expense	(4,581,292)	(6,682,434)
ATTRIBUTABLE TO:		
Equity holders of the parent	(4,165,241)	(6,405,668)
Non controlling interest	(416,051)	(276,766)
	(4,581,292)	(6,682,434)

COMPANY INCOME STATEMENT
Year ended 31 December 2012

	Note	2012 £	2011 £
Administrative expenses		(927,437)	(943,158)
Write off of loan to Botswana Diamondcorp Limited		-	(1,021,402)
OPERATING LOSS	3	(927,437)	(1,964,560)
Investment revenues		315	5,494
Finance costs		(78,019)	(123,066)
Fair value movement on convertible bonds	16	(26,226)	-
Effective interest cost of convertible bonds	16	(8,410)	-
LOSS FOR THE FINANCIAL YEAR		(1,039,777)	(2,082,132)
ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT		(1,039,777)	(2,082,132)

All of the activities of the Company are classed as continuing

There were no other gains or losses during the year

DIAMONDCORP PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2012

	Note	2012 £	2011 £
NON-CURRENT ASSETS			
Goodwill	8	4,606,026	4,606,026
Other intangible assets	8	-	4,641,801
Property, plant and equipment	9	8,776,273	4,609,284
		13,382,299	13,857,111
CURRENT ASSETS			
Inventories	11	297,474	442,433
Other receivables	12	195,028	182,350
Cash and cash equivalents	13	4,319,776	2,632,760
		4,812,278	3,257,543
TOTAL ASSETS		18,194,577	17,114,654
CURRENT LIABILITIES			
Other payables	14	(765,501)	(498,876)
Other current borrowings	14/20	(68,485)	-
Convertible bond notes payable	16	(2,642,739)	-
Derivative financial instruments	17	(1,525,391)	-
Provisions		(119,745)	(13,941)
		(5,121,861)	(512,817)
NET ASSETS		13,072,716	16,601,837
EQUITY			
Share capital	21	8,125,184	7,268,041
Share premium account		26,795,360	26,702,502
Warrant reserve	22	92,000	505,877
Share option reserve		439,236	429,066
Translation reserve		(750,150)	398,476
Retained losses		(20,524,660)	(18,013,922)
Equity attributable to equity holders of the parent		14,176,970	17,290,040
Non controlling interest	23	(1,104,254)	(688,203)
TOTAL EQUITY		13,072,716	16,601,837

The financial statements of DiamondCorp plc, registered number 5400982, were approved by the Board of Directors and authorised for issue on 10 May 2013

Signed on behalf of the Board of Directors

Evan A. Worthington

E A Worthington

Director

COMPANY BALANCE SHEET
31 December 2012

	Note	2012 £	2011 £
NON-CURRENT ASSETS			
Investments in subsidiaries	10	4,672,501	4,217,501
Property plant and equipment	9	297,258	317,075
		4,969,759	4,534,576
CURRENT ASSETS			
Other receivables	12	23,446,133	22,835,064
Cash and cash equivalents	13	1,363,545	257,042
		24,809,678	23,092,106
TOTAL ASSETS		29,779,437	27,626,682
CURRENT LIABILITIES			
Other payables	14	(413,597)	(118,580)
Other current borrowings	14/20	(68,485)	-
Financial guarantee contracts	16	(455,000)	-
Convertible bond notes payable	16	(780,261)	-
Derivative financial instruments	17	(541,598)	-
		(2,258,941)	(118,580)
NET ASSETS		27,520,496	27,508,102
EQUITY			
Share capital	21	8,125,184	7,268,041
Share premium account		26,795,360	26,702,502
Warrant reserve	22	92,000	505,877
Share option reserve		439,236	429,066
Retained losses		(7,931,284)	(7,397,384)
TOTAL EQUITY		27,520,496	27,508,102

The financial statements of DiamondCorp plc, registered number 5400982, were approved by the Board of Directors and authorised for issue on 10 May 2013

Signed on behalf of the Board of Directors

Euan A. Worthington

E A Worthington

Director

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2012

	Share capital £	Share premium account £	Warrant reserve £	Share option reserve £	Translation reserve £	Retained losses £	Sub-total £	Non controlling interest £	Total £
GROUP									
Balance at 1 January 2011	5,516,209	23,203,016	505,877	402,583	2,980,558	(14,190,336)	18,417,907	(411,437)	18,006,470
Loss for financial year	-	-	-	-	-	(3,823,586)	(3,823,586)	(415,560)	(4,239,146)
Other comprehensive income	-	-	-	-	(2,582,082)	-	(2,582,082)	138,794	(2,443,288)
Total comprehensive income	-	-	-	-	(2,582,082)	(3,823,586)	(6,405,668)	(276,766)	(6,682,434)
Issue of share capital	1,751,832	3,785,440	-	-	-	-	5,537,272	-	5,537,272
Issue costs	-	(285,954)	-	-	-	-	(285,954)	-	(285,954)
Value attributed for equity settled share based payments	-		-	26,483	-	-	26,483	-	26,483
Balance at 31 December 2011	7,268,041	26,702,502	505,877	429,066	398,476	(18,013,922)	17,290,040	(688,203)	16,601,837
Balance at 1 January 2012	7,268,041	26,702,502	505,877	429,066	398,476	(18,013,922)	17,290,040	(688,203)	16,601,837
Loss for financial year	-	-	-	-	-	(3,016,615)	(3,016,615)	(518,325)	(3,534,940)
Other comprehensive income	-	-	-	-	(1,148,626)	-	(1,148,626)	102,274	(1,046,352)
Total comprehensive income	-	-	-	-	(1,148,626)	(3,016,615)	(4,165,241)	(416,051)	(4,581,292)
Issue of share capital	857,143	142,857	-	-	-	-	1,000,000	-	1,000,000
Issue costs	-	(49,999)	-	-	-	-	(49,999)	-	(49,999)
Warrants granted	-	-	92,000	-	-	-	92,000	-	92,000
Expiry of warrants	-	-	(505,877)			505,877	-	-	-
Value attributed for equity settled share based payments	-	-	-	10,170	-	-	10,170	-	10,170
Balance at 31 December 2012	8,125,184	26,795,360	92,000	439,236	(750,150)	(20,524,660)	14,176,970	(1,104,254)	13,072,716

STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2012

	Share capital £	Share premium account £	Warrant reserve £	Share option reserve £	Retained losses £	Total £
COMPANY						
Balance at 1 January 2011	5,516,209	23,203,016	505,877	402,583	(5,315,252)	24,312,433
Loss for financial year	-	-	-	-	(2,082,132)	(2,082,132)
Total comprehensive income	-	-	-	-	(2,082,132)	(2,082,132)
Issue of share capital	1,751,832	3,785,440	-	-	-	5,537,272
Issue costs	-	(285,954)	-	-	-	(285,954)
Value attributed for equity settled share based payments	-	-	-	26,483	-	26,483
Balance at 31 December 2011	7,268,041	26,702,502	505,877	429,066	(7,397,384)	27,508,102
Balance at 1 January 2012	7,268,041	26,702,502	505,877	429,066	(7,397,384)	27,508,102
Loss for financial year	-	-	-	-	(1,039,777)	(1,039,777)
Total comprehensive income	-	-	-	-	(1,039,777)	(1,039,777)
Issue of share capital	857,143	142,857	-	-	-	1,000,000
Issue costs	-	(49,999)	-	-	-	(49,999)
Warrants granted	-	-	92,000	-	-	92,000
Expiry of warrants	-	-	(505,877)	-	505,877	-
Value attributed for equity settled share based payments	-	-	-	10,170	-	10,170
Balance at 31 December 2012	8,125,184	26,795,360	92,000	439,236	(7,931,284)	27,520,496

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2012

	2012 £	2011 £
Operatıng loss	(3,346,737)	(4,140,765)
Depreciatıon and amortısatıon	669,656	918,291
Share based payment charge	10,170	26,483
Warrants granted	92,000	-
Gaın on dısposal of property plant and equıpment	-	(1,985)
Wrıte off of taılıngs ınventory	275,561	-
Impaırment of ıntangıble asset	-	2,373,616
Wrıte off of Botswana project	-	1,013,032
(Increase) decrease ın other receıvables	(12,675)	215,916
Increase ın ınventorıes	(140,443)	(87,084)
Increase (decrease) ın other payables	266,625	(156,668)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(2,185,843)	160,836
INVESTING ACTIVITIES		
Purchase of ıntangıble assets	-	(3,996,606)
Purchase of property, plant and equıpment	(850,034)	(376,794)
Dısposal of property, plant and equıpment	-	74,265
Investment revenues	25,586	24,685
NET CASH USED IN INVESTING ACTIVITIES	(824,448)	(4,274,450)
FINANCING ACTIVITIES		
Repayment of borrowıngs	-	(2,308,016)
Net dırector loan receıved	50,000	-
Proceeds on ıssue of convertıble bonds, net of ıssue costs	3,911,944	-
Proceeds on ıssue of ordınary shares, net of ıssue costs	950,001	5,251,318
NET CASH FROM FINANCING ACTIVITIES	4,911,945	2,943,302
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,901,654	(1,170,312)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,632,760	4,293,185
Effect of foreıgn exchange rate changes	(214,638)	(490,113)
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,319,776	2,632,760

As outlıned ın note 13 to the financıal statements, £4 1 mıllıon of the cash and cash equıvalents held by the Group at 31 December 2012 was restrıcted

COMPANY CASH FLOW STATEMENT
Year ended 31 December 2012

	2012 £	2011 £
Operating loss	(927,437)	(1,964,560)
Depreciation	19,817	19,817
Share option expense	10,170	26,483
Warrants granted	92,000	-
Write off of loan to Botswana Diamondcorp Limited	-	(1,021,402)
Increase in other receivables	(611,069)	(3,717,442)
Increase (decrease) in other payables and other current borrowings	306,211	(49,431)
NET CASH USED IN OPERATING ACTIVITIES	(1,110,308)	(6,706,535)
INVESTING ACTIVITIES		
Investment revenues	315	5,494
NET CASH FROM INVESTING ACTIVITIES	315	5,494
FINANCING ACTIVITIES		
Repayment of borrowings	-	(2,308,016)
Net director loan received	50,000	-
Proceeds on issue of convertible bonds	1,216,495	-
Proceeds on issue of ordinary shares	950,001	5,251,318
NET CASH FROM FINANCING ACTIVITIES	2,216,496	2,943,302
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,106,503	(3,757,739)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	257,042	4,014,781
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,363,545	257,042

As outlined in note 13 to the financial statements, £1 2 million of the cash and cash equivalents held by the Company at 31 December 2012 was restricted

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

General information

DiamondCorp plc is a Company incorporated in England and Wales under the Companies Act 2006 and incorporated as an external company in South Africa under the Companies Act No 71 of 2008 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 functional 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

The following new and revised Standards and Interpretations have been adopted in the current year Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements

Amendments to IFRS 7 *Financial instruments Disclosures*	The Group has applied the amendments to IFRS 7 titled Disclosures – Transfers of Financial Assets in the current year The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred
Amendments to IAS 12 *Income taxes*	The Group has applied the amendments to IAS 12 (December 2010) titled Deferred tax Recovery of underlying assets The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment Property The amendments introduce a presumption that an investment property is recovered entirely through sale This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

IFRS 1 (amended)	*Government Loans*
IFRS 7 (amended)	*Disclosures - Offsetting Financial Assets and Financial Liabilities*
Annual Improvements to IFRSs	*(2009 – 2011) Cycle*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 10, IFRS 12 and IAS 27	*Investment entities* (amended)
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
IAS 27 (revised)	*Separate Financial Statements*
IAS 28 (revised)	*Investments in Associates and Joint Ventures*
IAS 32 (amended)	*Offsetting Financial Assets and Financial Liabilities*
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows

- IFRS 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities,
- IFRS 9 will impact both the measurement and disclosures of Financial Instruments,

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

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

- IFRS 12 will impact the disclosure of interests DiamondCorp plc has in other entities, and
- IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures

b) **Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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

c) **Basis of preparation**

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, as explained in the accounting policies below Historical cost is generally based on fair value of the consideration given in exchange for assets The financial statements have been prepared on a going concern basis The principal accounting policies adopted are set out below

d) **Going Concern**

In determining the appropriate basis of presentation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future, this being a period of not less than 12 months from the date of the approval of the financial statements The Group's business activities and goals are set out in the Letter from the Chairman and Chief Executive

As at 31 December 2012 the group had drawn down £4 3 million relating to the UK and South African convertible bonds, giving a cash balance of £4 3 million

As set out in note 16, the UK and South African convertible bonds are currently legally repayable on demand in cash, for an amount equal to the value of shares calculated under the conversion formula The current Group share price of 4 3 pence is 35% lower than the share price required, if the convertible bonds are called, for the full repayment of the original principal amount of the UK and South African convertible bonds

Only once a special resolution is passed at a general meeting of shareholders, will the Group then have the option of settling the debt, if called, through the issue of a fixed amount of shares The directors plan to propose the necessary special resolution at the Annual General Meeting ("AGM"), scheduled for July 2013 Whilst the directors remain confident that the special resolution will be passed at the AGM and the holders will not seek early redemption of the convertible bonds prior to the AGM, if this were to take place the Group may have insufficient unrestricted cash to meet any amounts due which would be proportionate to the share price of the group After making an assessment of the likelihood of the convertible bonds being called prior to the special resolution being obtained and the Group's cash flow forecasts, the Directors have a reasonable expectation that the Group will continue to have sufficient funds available to meet any financial obligations in respect of the convertible bonds

Post year end the Group signed and on 10 April 2013 drew down the final tranche of the $6 million (£4 million) Laurelton loan Following this, the Group has secured the full R100 million of additional funding required as a condition precedent for the drawdown of the R220 million (£15 7 million) IDC loan facility Subject to the successful completion of a number of remaining procedural conditions precedent, management is confident that the Group will be able to draw down on the IDC loan facility in the near future As at 19 April 2013 the Group had a cash balance of £5 6 million, which combined with the undrawn IDC loan facility, provides full funding for the development of the Lace mine The funding from the above convertible bonds and loans are restricted solely for that use

While all of the necessary finance for the development of the Lace mine has been secured, the restricted nature of those funds means the Company has insufficient cash to cover its corporate costs and will have to supplement its cash resources by accessing the equity markets in the imminent future

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

d) Going concern (continued)

The requirement for the Company to raise additional equity funds in the imminent future indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern After making an assessment of the Group's ability to raise further equity funds, given the successful fundraisings in the current and prior years, the Directors have a reasonable expectation that the Group can raise additional equity funds as required and therefore they continue to adopt the going concern basis of preparation in the financial statements

e) 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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and 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

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i e reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs) The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity

f) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method The consideration for each 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 Acquisition-related costs are recognised in profit or loss as incurred

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below) All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs Changes in the fair value of contingent consideration classified as equity are not recognised

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (contınued)

f) Busıness combınatıons (contınued)

Where a busıness combınatıon ıs achıeved ın stages, the Group's prevıously-held ınterests ın the acquıred entıty are remeasured to faır value at the acquısıtıon date (ı e the date the Group attaıns control) and the resultıng gaın or loss, ıf any, ıs recognısed ın profit or loss Amounts arısıng from ınterests ın the acquıree prıor to the acquısıtıon date that have prevıously been recognısed ın other comprehensıve ıncome are reclassıfied to profit or loss, where such treatment would be approprıate ıf that ınterest were dısposed of

The acquıree's ıdentıfiable assets, lıabılıtıes and contıngent lıabılıtıes that meet the condıtıons for recognıtıon under IFRS 3 (2008) are recognısed at theır faır value at the acquısıtıon date, except that

- deferred tax assets or lıabılıtıes and lıabılıtıes or assets related to employee benefit arrangements are recognısed and measured ın accordance wıth IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectıvely,
- lıabılıtıes or equıty ınstruments related to the replacement by the Group of an acquıree's share-based payment awards are measured ın accordance wıth IFRS 2 *Share-based Payment*, and
- assets (or dısposal groups) that are classıfied as held for sale ın accordance wıth IFRS 5 *Non-current Assets Held for Sale and Dıscontınued Operatıons* are measured ın accordance wıth that Standard

If the ınıtıal accountıng for a busıness combınatıon ıs ıncomplete by the end of the reportıng perıod ın whıch the combınatıon occurs, the Group reports provısıonal amounts for the ıtems for whıch the accountıng ıs ıncomplete Those provısıonal amounts are adjusted durıng the measurement perıod (see below), or addıtıonal assets or lıabılıtıes are recognısed, to reflect new ınformatıon obtaıned about facts and cırcumstances that exısted as of the acquısıtıon date that, ıf known, would have affected the amounts recognısed as of that date

The measurement perıod ıs the perıod from the date of acquısıtıon to the date the Group obtaıns complete ınformatıon about facts and cırcumstances that exısted as of the acquısıtıon date, and ıs subject to a maxımum of one year

g) Goodwıll

Goodwıll arısıng on consolıdatıon represents the excess of the cost of acquısıtıon over the Group's ınterest ın the faır value of the ıdentıfiable assets and lıabılıtıes of a subsıdıary, at the date of acquısıtıon Goodwıll ıs ınıtıally recognısed as an asset at cost and ıs subsequently measured at cost less any accumulated ımpaırment losses Goodwıll whıch ıs recognısed as an asset ıs revıewed for ımpaırment at least annually Any ımpaırment ıs recognısed ımmedıately ın profit or loss and ıs not subsequently reversed

For the purpose of ımpaırment testıng, goodwıll ıs allocated to the Group's cash-generatıng unıt expected to benefit from the synergıes of the combınatıon The cash-generatıng unıt to whıch goodwıll has been allocated ıs tested for ımpaırment annually, or more frequently when there ıs an ındıcatıon that the unıt may be ımpaıred If the recoverable amount of the cash-generatıng unıt ıs less than the carryıng amount of the unıt, the ımpaırment loss ıs allocated first to reduce the carryıng amount of any goodwıll allocated to the unıt and then to the other assets of the unıt pro-rata on the basıs of the carryıng amount of each asset ın the unıt

On dısposal of a subsıdıary, the attrıbutable amount of goodwıll ıs ıncluded ın the determınatıon of the profit or loss on dısposal

h) Intangıble assets

Exploratıon and evaluatıon expendıture comprıses costs whıch are dırectly attrıbutable to the acquısıtıon of exploratıon lıcenses and subsequent exploratıon expendıtures

Exploratıon and evaluatıon expendıture ıs carrıed forward as an asset provıded that one of the followıng condıtıons ıs met

(ı) Such costs are expected to be recouped ın full through successful development and exploratıon of the area of ınterest or alternatıvely, by ıts sale,

(ıı) Exploratıon and evaluatıon actıvıtıes ın the area of ınterest have reached a stage whıch permıts a reasonable assessment of the exıstence of economıcally recoverable reserves wıth actıve and sıgnıficant operatıons ın relatıon to the area contınuıng, or planned for the future

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

h) Intangible assets (continued)

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 Prior to obtaining the Mining Right in 2008, which was granted for a period of 20 years, these capitalised expenditures were amortised over the life of the work in progress Since the grant of the Mining Right these expenditures will be amortised at a rate of 5% based on the life of the Mining Right

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

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

During the current year, a decision was taken that the mining property is economically feasible therefore all previous exploration and evaluation and pre-production development expenditure has now been capitalised within property, plant and equipment under construction in progress and has been transferred from intangible assets

i) Property, plant and equipment

Initial recognition

Upon completion of mine construction, the assets are transferred into "Property, plant and equipment" Items of property, plant and equipment and producing mine are stated at cost, less accumulated depreciation and accumulated impairment losses

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets (where relevant), borrowing costs The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset The capitalised value of a finance lease is also included within property, plant and equipment

When a mine construction project moves into the production stage, the capitalisation of certain mine construction costs ceases and costs are either regarded as part of the cost of inventory or expensed, except for costs which qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development

Mines under construction

Upon transfer of "Exploration and evaluation assets" into "Construction in progress" within "Property, plant and equipment", all subsequent expenditure on the construction, installation or completion of infrastructure facilities is capitalised within "Construction in progress" Development expenditure is net of proceeds from all, but the incidental sale of ore extracted during the development phase After production starts, all assets included in "Construction in progress" are transferred to "Mining properties" within "Property, plant and equipment"

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

i) Property, plant and equipment (continued)

Depreciation/amortisation

Accumulated mine development costs are depreciated/amortised on a unit-of-production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life is shorter than the life of the mine, in which case the straight-line method is applied

The unit-of-production rate for the depreciation/amortisation of mine development costs takes into account expenditures incurred to date, together with sanctioned future development expenditure

Other plant and equipment such as mobile mine equipment is generally depreciated on a straight-line basis over their estimated useful lives as follows

Buildings 20 years

Plant and equipment 5 to 20 years

Mining rights (life of Mining right 20 years)

Other tangible assets 3 to 5 years

Land is not depreciated The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised

The assets' residual values, useful lives and methods of depreciation/amortisation are reviewed at each reporting period, and adjusted prospectively if appropriate

Major maintenance and repairs

Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets and overhaul costs Where an asset or part of an asset that was separately depreciated and is now written off is replaced, and it is probable that future economic benefits associated with the item will flow to the Group through an extended life, the expenditure is capitalised

Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset(s)

j) 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 it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired

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

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

k) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL

A financial liability is classified as held for trading if

- it has been incurred principally for the purpose of repurchasing it in the near term, or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as a hedging instrument

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise, or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis, or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement Fair value is determined in the manner described in note 25

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

k) Financial liabilities (continued)

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire

Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross currency swaps Further details of derivative financial instruments are disclosed in note 25

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months Other derivatives are presented as current assets or current liabilities

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months Other derivatives are presented as current assets or current liabilities

l) 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

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

l) Taxation (continued)

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

m) 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, 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, and restricted cash

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 bond policy

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as an amortised cost financial liability and an embedded derivative financial liability in accordance with the substance of the contractual arrangement At the date of issue, the fair value of the embedded derivative financial liability component is estimated using observable market data input into the Black Scholes model, modified for the Barone Adesi Whaley approximation This amount is recorded as an embedded derivative financial liability held at fair value through profit and loss The amortised cost financial liability (host debt contract) is determined by deducting the amount of the embedded derivative component from the fair value of the compound instrument as a whole The host debt contract is held on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

m) Financial instruments (continued)

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above

Trade payables

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

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

Equity instruments

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

Intercompany receivables

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

n) 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

Group and Company

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement 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

In addition, in the case of presenting consolidated financial statements, any foreign exchange differences arising on elimination of intercompany loan balances upon consolidation of the Group Companies, are classified as equity and transferred to the Group's translation reserve, as these loans are for long term investment purposes

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

n) Foreign currencies (continued)

Determining the rate of exchange to be used

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

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

o) Environmental restoration and decommissioning obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of a mining property Such costs arising from the decommissioning 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 recognised in the income statement 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 recognised in the income statement 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

p) Inventories

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

Work in progress relates to tailings and 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 was amortized on the units of production method During 2012, tailings inventory was written off as processing it was deemed uneconomical at current diamond prices

Inventory relating from development of the underground is carried at the lower of cost and net realisable value

q) 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 before full operations were suspended in 2008

Revenue earned from sales prior to the new operations achieving commercial production are recognised as a reduction in the carrying value of the pre-production expenses held within intangible assets Revenue is measured at the fair value of the consideration received or receivable

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

Revenues from the sale of carats recovered during the development phase are recognised as a credit against the cost of development

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

r) Finance leases

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

s) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date The fair value excludes the effect of non market-based vesting conditions Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 24

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme This results in accelerated recognition of the expenses that would have arisen over the remainder of the original vesting period

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year

t) 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 - Judgement was applied in calculating the initial carrying value of inventory and judgement continues to be applied in assessing the net realisable value See accounting policy p) above

- Valuation of warrants, share options and ordinary shares issued as consideration - Judgement is applied in determining appropriate assumptions to be used in calculating the fair value of warrants, shares and share options issued See notes 22 and 24

- Valuation of convertible bonds - Judgement is applied in determining appropriate assumptions to be used in calculating the fair value of convertible bonds See note 16

- Impairment of goodwill and other intangible assets - Judgement is applied in determining appropriate assumptions to be used in testing for and calculating impairment See policy g) and h) above

- Going concern - Judgement is applied in assessing the likelihood and timing of future cash flows associated with the Group's activities Judgement is also applied in assessing the likelihood of receiving future funding See page 31

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group has one business and geographical segment - diamond mining and exploration at the Lace mine in South Africa

3. OPERATING LOSS

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Operating loss is after charging (crediting):				
Auditors' remuneration	79,855	75,500	53,255	52,500
Foreign exchange losses	372	110,806	372	110,806
Profit on disposal of fixed assets	-	(1,985)	-	-
Depreciation and amortisation	669,656	918,291	19,817	19,817
Write off of tailings inventory	275,561		-	-
Impairment of intangible assets	-	2,373,616	-	-
Write off Botswana project	-	1,013,032	-	-
The analysis of auditors' remuneration is as follows				
Fees payable to the Company's auditors for the audit of Company's accounts	53,255	52,500	53,255	52,500
Fees payable to the Company's auditors and their associates for other services to the Group				
The audit of the Company's subsidiaries	26,600	23,000	-	-
Total audit fees	79,855	75,500	53,255	52,500
TOTAL	79,855	75,500	53,255	52,500

There were no non-audit services in 2012 (2011 - nil)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

4. STAFF COSTS

Staff costs of the Group and Company were

GROUP	2012 £	2011 £
Wages and salaries	948,160	775,874
Social security costs	85,061	48,100
	1,033,221	823,974
Average number of administrative staff	8	9
Average number of operational staff	62	58
Average number of employees	70	67

COMPANY	2012 £	2011 £
Wages and salaries	155,208	188,465
Social security costs	18,118	22,414
	173,326	210,879
Average number of employees	3	4

5. DIRECTORS' EMOLUMENTS

Directors' emoluments for the year ended 31 December 2012 and 2011 and for the highest paid director were as follows

	2012 £	2011 £
Directors' remuneration		
Fees paid by the Company and its subsidiaries	277,541	252,167
Emoluments of highest paid director	163,541	137,500

Refer to the Remuneration Report where the detail of directors' remuneration has been disclosed

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

6. TAX

GROUP	2012	2011
	£	£
Current tax	-	-
Deferred tax (see note 19)	-	-
Tax expense for the year	-	-

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

	2012	2011
	£	£
Loss for the year	(3,534,940)	(4,239,146)
Tax at the UK corporation tax rate of 24 5% (2011 - 26 5%)	(866,060)	(1,123,374)
Expenses not deductible	55,710	308,733
Tax losses carried forward	810,350	814,641
Tax expense for the year	-	-

In March 2012, the UK Government announced a reduction in the standard rate of UK corporation tax to 24% effective 1 April 2012 and to 23% effective 1 April 2013 These rate reductions became substantively enacted in March 2012 and July 2012 respectively

In December 2012, the UK Government also proposed to further reduce the standard rate of UK corporation tax to 21% effective 1 April 2014

In March 2013, the UK Government also proposed to further reduce this standard rate of UK corporation tax to 20% effective 1 April 2015, but this change has not been substantively enacted

The effect of these tax rate reductions on the deferred tax balance will be accounted for in the period in which the tax rate reductions are substantively enacted

7. LOSS PER SHARE

a) Basic loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of shares in issue during the year The weighted average number of shares used is 247,576,401 (2011 - 203,928,771)

b) Diluted loss per share

International Accounting Standard 33 requires presentation of diluted earnings per share when a company could be called upon to issues shares that would decrease the net profit or increase the net loss per share The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would increase the net profit or decrease the net loss per share As the Group is currently in a loss-making position then the inclusion of the potential ordinary shares associated with share options or the convertible bonds in the diluted loss per share calculation would serve to decrease the net loss per share On that basis, no adjustment has been made for diluted loss per share

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

Basic	2012	2011
Loss per share	(1 22p)	(1 87p)
Effect of gain on insurance settlement	-	0 80p
Effect of impairment of intangible assets	-	(1 36p)
Adjusted loss per share	(1 22p)	(2 43p)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

8. INTANGIBLE ASSETS

For the year ended 31 December 2012

GROUP	Goodwill	Power line Phase 1	Power line Phase 2	Pre-production capitalised expenses	Under-ground capitalised expenses	Mineral rights	Total
	£	£	£	£	£	£	£
Cost							
At 1 January 2012	4,606,026	395,661	150,538	453,472	6,510,102	629,528	12,745,327
Transfer to property, plant and equipment	-	(395,661)	(150,538)	(453,472)	(6,510,102)	(629,528)	(8,139,301)
At 31 December 2012	4,606,026	-	-	-	-	-	4,606,026
Accumulated amortisation							
At 1 January 2012	-	(79,752)	(30,344)	(62,722)	(3,198,777)	(125,905)	(3,497,500)
Transfer to property, plant and equipment	-	79,752	30,344	62,722	3,198,777	125,905	3,497,500
At 31 December 2012	-	-	-	-	-	-	-
Carrying amount							
At 31 December 2012	4,606,026	-	-	-	-	-	4,606,026
At 31 December 2011	4,606,026	315,909	120,194	390,750	3,311,325	503,623	9,247,827

At 1 January 2012, a decision was taken that the mining property is economically feasible and therefore all previous exploration and evaluation and pre-production development expenditure has been transferred from intangible assets and has now been capitalised within property, plant and equipment under construction in progress

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

8. INTANGIBLE ASSETS (continued)

For the year ended 31 December 2011

GROUP	Goodwill £	Jwaneng £	Power line Phase 1 £	Power line Phase 2 £	Pre-production capitalised expenses £	Under-ground capitalised expenses £	Mineral rights £	Total £
Cost								
At 1 January 2011	4,606,026	310,422	484,040	184,164	554,764	4,679,942	681,614	11,500,972
Additions	-	702,610	-	-	-	3,293,996	-	3,996,606
Impairment	-	(1,013,032)	-	-	-	-	-	(1,013,032)
Exchange differences	-	-	(88,379)	(33,626)	(101,292)	(1,463,836)	(52,086)	(1,739,219)
At 31 December 2011	4,606,026	-	395,661	150,538	453,472	6,510,102	629,528	12,745,327
Accumulated amortisation								
At 1 January 2011	-	-	(71,899)	(27,356)	(76,732)	(1,668,939)	(102,242)	(1,947,168)
Charge for the year	-	-	(22,716)	(8,643)	-	-	(32,440)	(63,799)
Impairment	-	-	-	-	-	(2,373,616)	-	(2,373,616)
Exchange differences	-	-	14,863	5,655	14,010	843,778	8,777	887,083
At 31 December 2011	-	-	(79,752)	(30,344)	(62,722)	(3,198,777)	(125,905)	(3,497,500)
Carrying amount								
At 31 December 2011	4,606,026	-	315,909	120,194	390,750	3,311,325	503,623	9,247,827
At 31 December 2010	4,606,026	310,422	412,141	156,808	478,032	3,011,003	579,372	9,553,804

In 2011 Lace Diamond Mines (Pty) Limited reached an agreement with Mutual and Federal Insurance Limited on a claim for damage to timbers and pumps in the vertical shaft at the Lace mine incurred during heavy rains earlier in the year, after deductibles, we received R25 million (£2 2 million) and recognised an impairment against underground capitalised expenses of R27 5 million (£2 4 million)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

9. PROPERTY, PLANT AND EQUIPMENT

For the year ended 31 December 2012

GROUP	Land and buildings £	Plant and equipment £	Mining rights £	Construction in progress £	Total £
Cost					
At 1 January 2012	241,829	7,869,059	-	-	8,110,888
Transfer from intangible assets	546,199	-	629,528	6,963,574	8,139,301
Additions	78,282	97,709	-	780,773	956,764
Exchange differences	(69,737)	(658,986)	(19,461)	(624,214)	(1,372,398)
At 31 December 2012	796,573	7,307,782	610,067	7,120,133	15,834,555
Accumulated depreciation					
At 1 January 2012	(62,318)	(3,439,286)	-	-	(3,501,604)
Transfer from intangible assets	(110,097)	-	(125,905)	(3,261,498)	(3,497,500)
Charge for the year	(41,058)	(597,524)	(31,075)	-	(669,656)
Exchange differences	16,472	317,346	4,463	272,198	610,478
At 31 December 2012	(197,001)	(3,719,464)	(152,517)	(2,989,300)	(7,058,282)
Carrying amount					
At 31 December 2012	599,572	3,588,318	457,550	4,130,833	8,776,273
At 31 December 2011	179,511	4,429,773	-	-	4,609,284

Plant and equipment includes mining fleet, processing plant, office equipment and motor vehicles which were previously separately classified The property, plant and equipment is pledged as security for the Convertible Bonds However, once the IDC loan is drawn down in whole or in part, the Bondholders security interest in these assets will be subordinated to the security interest of the Industrial Development Corporation of South Africa Limited ("IDC") On 1 January 2012, a decision was taken that the mining property is economically feasible therefore all previous exploration and evaluation and pre-production development expenditure has now been capitalised within property, plant and equipment under construction in progress and has been transferred from intangible assets

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

9. PROPERTY, PLANT AND EQUIPMENT (continued)

For the year ended 31 December 2011

GROUP	Plant and equipment £	Mining fleet £	Land and buildings £	Other tangible assets £	Total £
Cost					
At 1 January 2011	6,336,605	2,508,082	322,693	423,150	9,590,530
Additions	110,081	179,100	48,521	39,092	376,794
Disposals	-	-	(72,280)	(10,617)	(82,897)
Reclassification	(542,168)	542,168	-	-	-
Exchange differences	(1,165,380)	(471,618)	(57,105)	(79,436)	(1,773,539)
At 31 December 2011	4,739,138	2,757,732	241,829	372,189	8,110,888
Accumulated depreciation					
At 1 January 2011	(851,651)	(2,231,957)	(62,626)	(183,994)	(3,330,228)
Charge for the year	(251,047)	(538,428)	(12,047)	(52,970)	(854,492)
Disposals	-	-	-	10,617	10,617
Exchange differences	174,672	448,645	12,355	36,827	672,499
At 31 December 2011	(928,026)	(2,321,740)	(62,318)	(189,520)	(3,501,604)
Carrying amount					
At 31 December 2011	3,811,112	435,992	179,511	182,669	4,609,284
At 31 December 2010	5,484,954	276,125	260,067	239,156	6,260,302

9. PROPERTY, PLANT AND EQUIPMENT (continued)

For the year ended 31 December 2012

COMPANY	**Mining rights** **£**
Cost and carrying amount	
At 1 January 2012	317,075
Charge for the year	(19,817)
At 31 December 2012	297,258

For the year ended 31 December 2011

COMPANY	**Mining rights** **£**
Cost and carrying amount	
At 1 January 2011	336,892
Charge for the year	(19,817)
At 31 December 2011	317,075

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

The Group's test for impairment is based on several considerations including a model adopted by management from the model prepared for the Lace Mine by one of its technical advisors This model uses grade assumptions based on the resource statement of the Group's technical advisor and it uses diamond prices considered representative of market prices The model assumes that the Lace mine will reach full production of 1,200,000 tonnes of kimberlite in 2015 and run through 2040 The valuations of the Lace Mine generated by the Model under variable sets of assumptions as to grades, revenues and costs indicate that there has been no impairment of goodwill during the year Management have considered the key assumptions to be reasonable A reasonable possible change in a key assumption would not lead to an indicator of impairment of the cash generating unit which contains goodwill

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

10. INVESTMENT IN SUBSIDIARIES

For the year ended 31 December 2012

COMPANY	**£**
Cost and carrying amount	
At 1 January 2012	4,217,501
Capital contribution	455,000
At 31 December 2012	4,672,501

For the year ended 31 December 2011

COMPANY	**£**
Cost and carrying amount	
At 1 January 2011 and 31 December 2011	4,217,501

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

The capital contribution made during 2012 relates to the financial guarantee that DiamondCorp plc has provided to Soapstone Investments (Pty) Ltd ("Soapstone"), its 100% owned subsidiary registered in South Africa, in respect of the convertible bonds issued by Soapstone during the year (see note 16) The financial guarantee contract has been recorded at fair value in DiamondCorp plc's balance sheet with a corresponding increase in the carrying value of the investment

11. INVENTORIES

GROUP	**2012 £**	**2011 £**
Work in progress (tailings)	-	285,402
Diamond inventories	293,283	141,889
Consumable and other inventories	4,191	15,142
	297,474	442,433

Diamond inventories at 31 December 2012 totalled 7,193 carats Of these, 2,168 carats were recovered from bulk testing and the balance (5,025 carats) from tailings

During 2012, tailings inventory was written off as processing it was deemed uneconomical at current diamond prices

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

12. OTHER RECEIVABLES

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Receivables due from Group undertakings	-	-	23,436,966	22,802,199
Prepayments and other receivables	195,028	182,350	9,167	32,865
	195,028	182,350	23,446,133	22,835,064

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

Included in prepayments and other receivables is an environmental rehabilitation and decommissioning bond held by the Department of Mineral Resources in the amount of £92,372 (2011 - £67,923) providing for the originally determined cost of environmental rehabilitation and decommissioning on termination of the Lace project

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Cash and cash equivalents	4,319,776	2,632,760	1,363,545	257,042

Included in the cash and cash equivalents at 31 December 2012 are the following

- £2,922,716 (R 40 million) of proceeds from the issue of the SA Bonds held in an escrow account,
- £1,210,000 of restricted cash being the proceeds from the issue of the UK Bonds,

The proceeds from the issue of bonds are to be released upon completion of the loan agreement between Diamondcorp Holdings Limited, an associated company, and Laurelton Diamonds, Inc (note 27)

14. OTHER PAYABLES

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Accruals and deferred income	833,986	498,876	482,082	118,580

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

15. BORROWINGS

On 17 October 2008, the Company arranged a long term loan with Africa Opportunity Fund L P ("AOF") in the amount of US$5,000,000 The loan was secured by the Company's equity interest in Lace Diamond Mines (Pty) Ltd and by the assets of the Company's subsidiaries In October 2011, the final amount due under the loan with AOF was repaid in full and the Company and its subsidiaries have been released of all security The following discussion provides a history of the loan

Reconciliation of payments made on long term loan:	**Principal US$**	**Interest US$**	**Total US$**
Amounts paid as at 31 December 2011	5,000,000	1,473,928	6,473,928

Interest accrued daily and was paid half-yearly at a rate of 12% Any portion of the interest in relation to a reporting period that remained unpaid, was accrued for

The cost of the warrants granted to AOF, £57,566, (see note 22) has been offset against the loan in accordance with IAS 39 The cost of these warrants was to be expensed over the life of the loan and did not constitute payment towards the loan The warrant cost expensed during the period was £nil (2011 - £nil) The loan was repaid in full in 2011

16. CONVERTIBLE LOAN NOTES

UK Bonds

On 14 December 2012, the Company, issued £1,410,000 14% senior secured bonds (the "UK Bonds") to investors in the United Kingdom The proceeds of the UK Bonds was held in escrow and released from escrow upon completion of a loan agreement between Diamondcorp Holdings Limited, an associated company, and Laurelton Diamonds, Inc The UK Bonds are due for repayment 31 December 2018 with interest payable quarterly in arrears, with the first 24 months of interest on the UK Bonds to be accumulated and added to the principal amount to be repaid Bondholders can request conversion of the UK Bonds and outstanding interest at any time after 41 days from issue, or 24 January 2013 Any request for conversion can be settled at the absolute discretion of the Company with ordinary shares at 5 81 pence per share or the cash equivalent of the number of underlying shares multiplied by the share price at the time of conversion The UK Bonds are secured by the assets of the Company and have a reversionary interest in the assets of Lace Diamond Mines (Pty) Limited £250,000 of the UK Bonds were taken up by directors of the Company or other related parties (see note 20)

SA Bonds

On 14 December 2012, Soapstone Investments (Pty) Ltd ("Soapstone"), wholly-owned subsidiary of the Company, issued R 40,000,000 14% senior secured bonds (the "SA Bonds") to investors in South Africa The proceeds of the SA Bonds was held in escrow and released from escrow upon completion of a loan agreement between Diamondcorp Holdings Limited, an associated company, and Laurelton Diamonds, Inc The SA Bonds are due for repayment 31 December 2018 with interest payable quarterly in arrears, the first payment being 14 March 2013 The first two years of interest will be held in escrow to be paid on the quarterly interest dates Bondholders can request conversion of the SA Bonds and outstanding interest at any time after 41 days from issue, or 24 January 2013 Any request for conversion can be settled at the absolute discretion of the Company with ordinary shares at R 0 81 per share or the cash equivalent of the number of underlying shares multiplied by the share price at the time of conversion The SA Bonds are secured by the assets of Soapstone and have a reversionary interest in the assets of Lace Diamond Mines (Pty) Limited The SA Bond is also secured by way of a financial guarantee provided by DiamondCorp plc

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

16. CONVERTIBLE LOAN NOTES (continued)

The net proceeds received from the issue of the UK Bonds and SA Bonds (together "the Bonds") have been split between the financial liability element and an embedded derivative component, representing the fair value of the embedded option to convert the financial liability with reference to the Company's share price (either through the payment of cash or issuance of equity), as follows

GROUP	2012 £
Proceeds on issue of convertible loan notes (net of issue costs)	3,911,944
Embedded derivative component	
Balance at date of issue	1,462,589
Fair value movement	44,821
Exchange differences	17,981
Balance at 31 December 2012	1,525,391
Liability component	
Balance at date of issue	2,577,340
Effective interest charged	31,261
Exchange differences	34,138
Balance at 31 December 2012	2,642,739

The liability component is measured at amortised cost The interest expensed for the year is calculated by applying an effective interest rate of 23 6 per cent for the UK Bonds and 26 5 per cent for the SA Bonds to the liability component for the 17 day period since the loan notes were issued The difference between the carrying amount of the liability component at the date of issue and the amount reported in the balance sheet at 31 December 2012 represents the effective interest rate less interest paid to that date

Issue costs totalling £366,920 were incurred in issuing the UK and SA Bonds Of this amount, £127,985 was allocated to the embedded derivative element of the convertibe bonds and was recognised in the income statement during the year The remaining amount was allocated to the liability component and was capitalised onto the balance sheet and is taken into account when calculating the effective interest rate for the Bonds

16. CONVERTIBLE LOAN NOTES (continued)

COMPANY	2012 £
Proceeds on issue of convertible loan notes (net of issue costs)	1,216,494
Embedded derivative component	
Balance at date of issue	515,372
Fair value movement	26,226
Balance at 31 December 2012	541,598
Liability component	
Balance at date of issue	771,851
Effective interest charged	8,410
Balance at 31 December 2012	780,261

Issue costs totalling £193,506 were incurred in issuing the UK Bonds Of this amount, £70,729 was allocated to the embedded derivative element of the convertible bonds and was recognised in the income statement during the year The remaining amount was allocated to the liability component and was capitalised onto the balance sheet and is taken into account when calculating the effective interest rate for the Bonds

DiamondCorp plc has provided a financial guarantee to the Bondholders of the SA Bond, guaranteeing any amounts due under the SA Bond agreement by its wholly-owned subsidiary, Soapstone Investments (Pty) Ltd This financial guarantee meets the definition of a financial guarantee contract under IAS 39, *Financial Instruments Recognition and Measurement* In accordance with IAS 39, the financial guarantee contract must be recognised initially at fair value The fair value of the financial guarantee contract has been determined to be £455,000 and this amount has been recorded as a financial liability on the Company's balance sheet, with a corresponding increase in the cost of its investment balance

Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

17. DERIVATIVE FINANCIAL INSTRUMENTS

GROUP	2012 £
Financial liabilities carried at fair value through profit or loss (FVTPL)	1,525,391

COMPANY	2012 £
Financial liabilities carried at fair value through profit or loss (FVTPL)	541,598

Further details of these derivative financial instruments related to the bonds are provided in notes 16 and 25

18. COMMITMENTS

IDC Loan

On 20 September 2012, Lace Diamond Mine (Pty) Ltd ("Lace"), wholly-owned subsidiary of the Company, entered into an agreement with the Industrial Development Corporation of South Africa Limited ("IDC") whereby IDC will provide a project loan facility of R 220,000,000 The term of the loan is 7 years with an interest rate of South Africa Prime Rate + 2% The initial drawdown must occur before 31 July 2014 and interest from the initial drawdown date will be capitalised for two years, subject to a maximum of R 20,141,000 and thereafter is payable semi-annually in arrears The loan is repayable in 10 bi-annual payments of R 24,014,000 commencing on the date that is 2 years after the initial drawdown date and every six months thereafter The IDC Loan is secured by a general charge over the assets of Lace In addition there is a cession in favour of IDC of shares held by Lace's shareholders and of loans to Lace by shareholders and associated companies The initial drawdown is conditional on R 100,000,000 having been advanced to Lace by shareholders and associated companies after 20 September 2012

19. DEFERRED TAX

Until it is probable that sufficient taxable profits will be available to allow the entire or partial recovery of potential deferred tax assets of £5,458,225 (2011 - £4,847,154), the accounting benefit of tax losses will not be reflected in the accounts The Group's tax losses have no expiry date

Due to the Group's retained loss position, there are no temporary differences associated with investments in the Group's subsidiaries

20. 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 2012

(i) £131,458 (2011 - £92,667) were paid to the following companies as Directors' remuneration

20. RELATED PARTY TRANSACTIONS (continued)

- £91,458 to Glendree Capital Management Limited (2011 - £60,000), a Company owned by P R Loudon,
- £20,000 to Loeb Aron & Company Limited (2011 - £12,000), a Company where P R Loudon and J Willis-Richards are directors, of which £8,000 was paid to Loeb Aron as commission on placing bonds and £12,000 as non-executive directors fees for Mr Willis-Richards In addition, Loeb Aron subscribed to £50,000 of the UK Bonds (see note 16)
- £20,000 to European Islamic Investment Bank plc (2011 - £20,667), represented on the Company's Board of Directors by M Toxvaerd (appointed 1 May 2012) and G K Morton and S Benkhadra (resigned 19 September 2011) in 2011,

(ii) During 2012, Mr Worthington made a loan to the Company of £150,000 bearing cumulative interest at 1% per month On 14 December 2012, £100,000 of the loan was settled by the Company through the issuance of £100,000 of convertible bonds (see below) At 31 December 2012, the amount owing to Mr Worthington, including interest, amounted to £68,485, of which £18,485 constitutes interest

(iii) During 2012, Messrs Worthington and Loudon both participated in the UK Bond placement (note 16), each taking up £100,000 in bonds In consideration Mr Loudon waived outstanding remuneration owing to him of the same amount

COMPANY

The Company held a loan to Diamondcorp Holdings Limited of £23,553,845 (2011 - £22,802,199)

The Company has provided a financial guarantee to the Bondholders of the SA Bond, guaranteeing any amounts due under the SA Bond agreement by its wholly-owned subsidiary, Soapstone Investments (Pty) Ltd See note 16 for further details

21. SHARE CAPITAL

	2012		2011	
	No.	£	No.	£
Called up, allotted and fully paid				
Ordinary shares of 3 pence each	270,839,478	8,125,184	242,268,048	7,268,041

In June 2011, the Company issued 26,794,397 ordinary shares at 13 pence each The cost associated with the issuance of these shares has been charged to the share premium account

In October 2011, the Company issued 31,600,000 ordinary shares at 6 5 pence each The cost associated with the issuance of these shares has been charged to the share premium account

In October 2012, the Company issued 28,571,430 ordinary shares at 3 5 pence each The cost associated with the issuance of these shares has been charged to the share premium account

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

22. WARRANT RESERVE

	Warrants in issue	Warrant reserve £
GROUP AND COMPANY		
Outstanding at 1 January 2012	5,816,666	505,877
Granted during the year	5,000,000	92,000
Expired during the year	(5,816,666)	(505,877)
Outstanding at 31 December 2012	5,000,000	92,000
GROUP AND COMPANY		
Outstanding at 1 January 2011 and 31 December 2011	5,816,666	505,877

(i) <u>Vendor Warrants</u>

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 expired on 1 February 2012, being five years from the date of admission to the Alternative Investment Market Certificates in relation to these warrants were issued on 30 June 2006 following and taking into account, the consolidation of the Company's share capital on that date

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

(ii) <u>AOF Warrants</u>

In 2008 a warrant was issued to Africa Opportunity Fund to subscribe for 1,650,000 ordinary shares of 3 pence each, exercisable at 21 6 pence for a period ended on 25 January 2012 These warrants were not exercised and have now expired

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

(iii) <u>Darwin Warrants</u>

In respect of agreeing to provide a standby equity finance facility of up to £10,000,000 which can be drawn upon at the Company's discretion during a period of 36 months ending on 18 October 2015, the Company has granted 5,000,000 warrants to Darwin Strategic Limited a unit of Henderson Global Investors which are exercisable at 9p on or before 18 October 2015

Black-Scholes Assumptions	**Vendor Warrants***	**AOF Warrants**	**Darwin Warrants**
Term range	5 6 years	0 5 years	3 years
Expected dividend yield	Nil	Nil	Nil
Risk free interest rate	5 %	2 %	1 4 %
Share price volatility	55 %	40 %	100 %
Share price at time of grant	45 pence	56 5 pence	4 pence

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

23. NON CONTROLLING INTEREST

	£
GROUP	
Balance at 1 January 2011	(411,437)
Share of total comprehensive loss for the year	(415,560)
Currency translation loss	138,794
Balance at 1 January 2012	(688,203)
Share of total comprehensive loss for the year	(518,325)
Currency translation gain	102,274
Balance at 31 December 2012	(1,104,254)

24. 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	2012 Weighted average exercise price (£)	Number of share options	2011 Weighted average exercise price (£)
Outstanding at beginning of year	6,345,000	19p	6,595,000	55p
Granted during the year	-		-	
Forfeited during the year	-		(250,000)	
Exercised during the year	-		-	
Expired during the year	-		-	
Outstanding at the end of the year	6,345,000	15p	6,345,000	19p
Exercisable at the end of the year	5,125,000	21p	3,838,333	24p

At 31 December 2012, 6,345,000 options were outstanding at a weighted average exercise price of 15p, and a weighted average remaining contractual life of 6 5 years

During 2012, the Group recognised total expenses of £10,170 (2011 - £26,483) relating to equity-settled share-based payment transactions

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

24. SHARE BASED PAYMENTS (continued)

Equity-settled share option scheme (continued)

Black-Scholes Assumptions

	2010 Option Plan	2007 UK Option Plan	The DiamondCorp Share Option Plan
Term range	3 years	3 years	3 years
Expected dividend yield	Nil	Nil	Nil
Risk free interest rate	2%	5 %	2 %
Share price volatility	50%	40 %	40 %
Share price at time of grant	6 88 pence	90 pence	34 5 pence

(i) 2007 UK Options ("2007 Plan")

During 2007, options over 2,940,000 ordinary shares of 3 pence each were granted to employees and management of the Company, exercisable at 135 pence for a period of 10 years from the date of issue

270,000 of these options vested on grant and the balance vest over 3 years at one-third at each anniversary of the issue date 690,000 of these options were forfeited during 2008 by reason of retirement and 120,000 options were forfeited in 2009

Share options granted during the year ended 31 December 2007 were valued by the Directors using the Black-Scholes valuation model, based upon the assumptions as detailed in the table above

At 31 December 2012, 2,130,000 options were outstanding under this plan (2011 - 2,130,000)

(ii) The DiamondCorp Share Option Plan ("DCP Plan")

During 2008, a share option plan was approved and registered in the Republic of South Africa to provide eligible employees of the Group with the opportunity to acquire as incentive an interest in the equity of the Company Eligible employees were granted options over 695,000 ordinary shares of 3 pence each, exercisable at 50 pence for a period of 10 years from the date of issue, 16 December 2008 These options vest over 3 years at one-third at each anniversary of the issue date During 2009, a further 200,000 options were granted under this plan and 340,000 options were forfeited

These options were valued by the Directors using the Black-Scholes valuation model, based upon the assumptions as detailed in the table above

In August 2010, the exercise price of these options was adjusted to 21 pence All other conditions remain unchanged

At 31 December 2012, the number of options outstanding under this plan was 555,000 (2011 - 555,000)

(iii) 2010 Option Plan ("2010 Plan")

During 2010, options over 4,570,000 ordinary shares of 3 pence each were granted to employees and management of the Company, exercisable at 12 pence each for a period of 10 years from the date of issue These options vest over 3 years at one third on each anniversary of the date of issue, subject to the share price of the Company attaining and trading at or above 17 pence for a period of 3 consecutive months

These options were valued by the Directors using the Black-Scholes valuation model, based upon the assumptions as detailed below As the fair value of these options is not material to the financial statements, the Directors did not consider it necessary to incur the additional expense required to employ a third party to calculate the fair value of the options using the Monte Carlo Method

During the year ended 31 December 2010, 660,000 options expired

During the year ended 31 December 2011, 250,000 options expired

During 2012 the exercise price of these options was adjusted to 5 pence All other conditions remain unchanged

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

24. SHARE BASED PAYMENTS (continued)

(iii) 2010 Option Plan ("2010 Plan") (continued)

At 31 December 2012, 3,660,000 options were outstanding under this plan (2011 - 3,660,000)

25. 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 14, cash and cash equivalents (note 13) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings The Group is not subject to any externally imposed capital requirements The Group's Directors review the capital structure on a regular basis As part of this review the Directors consider the cost of capital and the risks associated with each class of capital

Significant accounting policies

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

Categories of financial instruments

	Group Carrying value		Company Carrying value	
	2012	2011	2012	2011
	£	£	£	£
Financial assets				
Loans and receivables (including cash and cash equivalents)	287,060	2,632,760	23,716,556	23,092,106
Financial liabilities				
Amortised cost	3,476,725	498,876	1,023,680	118,580
Financial guarantee contracts	-	-	455,000	-
Derivative instruments designated as fair value through profit and loss (FVPL)	1,525,391	-	541,598	-

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of derivative instruments are calculated using quoted prices Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives The fair value of the embedded derivative component of the convertible bonds was determined using the Black Scholes (using the Barone-Adesi and Whaley approximation technique) option pricing model The table below outlines the fair value inputs used in the embedded derivative valuation

Black-Scholes Assumptions	**31 December 2012**	**14 December 2012**
Term range	6 years	6 years
Expected dividend yield	Nil	Nil
Risk free interest rate	1 4 %	1 4 %
Share price volatility	96 %	96 %
Share price at time of valuation	3 9 pence	3 8 pence

25. FINANCIAL INSTRUMENTS (CONTINUED)

The embedded derivative component of the convertible bonds is deemed to represent a Level 2 fair value instrument in the fair value hierarchy

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

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 the manner in which it is measured and managed

Credit risk management

The Group and Company's principal financial assets are bank balances and cash The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies Management reviews the credit worthiness of all customers before entering into a transaction

The Company also holds amounts receivable from related parties as disclosed in note 20 Management reviews the credit worthiness of all balances due from related parties with reference to future profitability

Foreign currency risk management

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

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

	Assets (Liabilities)	
	2012	2011
	£	£
Cash denominated in South African Rand	2,958,573	371,924
Cash denominated in United States Dollar	-	661,171
Loan denominated in United States Dollar	-	(2,165,762)

Foreign currency sensitivity analysis

The Group is exposed to the currency of South Africa (Rand) and the United States Dollar

The following table details the Group's sensitivity to a 20% increase and decrease in the Sterling against South African Rand and United States Dollar 20% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates A negative number below indicates a decrease in profit where the Sterling strengthens 20%

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

25. FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis (continued)

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	
	2012	**2011**
	£	**£**
Loss due to a 20% depreciation of the ZAR	(390)	-
Profit due to a 20% appreciation of the ZAR	586	-

The Group's sensitivity to foreign currency has increased during the current period, because the Company held higher balances of foreign currency However, the Group's South African Rand deposits are held at a subsidiary level in South Africa and as such this sensitivity analysis does not represent a real cash foreign exchange risk to the Group

In management's opinion, the impact of the sensitivity analysis is representative of the inherent foreign exchange risk

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

Interest rate risk management
The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts and forward interest rate contracts Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note

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 of which are due within less than one year
In respect of the financial liability and the financial guarantee contract liability (Company only), the terms on which those instruments might be required to be settled are outlined in note 16 The amounts outlined below in respect of these financial instruments represent the amortised cost financial liability and the fair value financial guarantee contract which are currently repayable on demand and disclosed as current liabilities in the balance sheet of the Group and the Company

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

25. FINANCIAL INSTRUMENTS (continued)

GROUP

	Weighted average effective interest rate %	Less than 1 year £
2012		
Non-interest bearing	-	486,004
Finance lease liability	-	-
Fixed interest rate instruments	13 9%	2,711,224
		3,197,228
2011		
Non-interest bearing	-	369,217
Finance lease liability	-	-
Fixed interest rate instruments	-	-
		369,217

COMPANY

	Weighted average effective interest rate %	Less than 1 year £
2012		
Non-interest bearing	-	56,051
Fixed interest rate instruments	13 8%	848,746
Financial guarantee contract		455,000
		1,359,797
2011		
Non-interest bearing	-	43,703
Fixed interest rate instruments	-	-
		43,703

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 £
2012				
Non-interest bearing	-	187,060	-	153,545
2011				
Non-interest bearing	-	2,632,760	-	257,042

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2012

26. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2012 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 of a Trading Group
Botswana Diamondcorp Limited	British Virgin Islands	100	100	Holding Company
Lace Diamond Mine (Pty) Limited	Republic of South Africa	74	74	Diamond exploration and exploitation
Soapstone Investments (Pty) Limited	Republic of South Africa	100	100	Investment Company
DCP Exploration (Pty) Ltd	Botswana	100	100	Diamond exploration and exploitation

(1) Formerly named Crown Diamond Mining Limited

27. SUBSEQUENT EVENTS

(i) On 7 January 2013 Diamondcorp Holdings Limited, a wholly-owned subsidiary of the Company, entered into a term loan agreement with Laurelton Diamonds, Inc , a wholly-owned subsidiary of Tiffany & Co, in the amount of US$6,000,000 (the "Loan") in exchange for an Off-take Agreement The Loan has been drawn down in two instalments of US$3,000,000 each on 10 January 2013 and 10 April 2013 The Loan bears interest at 9%, and is repayable in full by 10 April 2021 There will be no payments of principal or interest for the first 3 years of the Loan with accrued interest being added to the principal balance of the Loan A blended payment of principal and interest in the amount of US$1,575,963 is due on 10 April 2017 and every anniversary thereafter until payment in full has been made The Loan can be repaid early without penalty

The Off-take Agreement over Lace Mine production takes effect from 10 January 2013 until the end of the life of the mine Subject to any purchases by the South African State Diamond Trader, the Off-take Agreement will give Laurelton Diamonds, Inc the right to purchase, on commercial terms related to fair market value, production from the Lace Mine that meets the quality and colour standards of Laurelton