

# CAPE RESOURCES PLC

(FORMERLY CAPE DIAMONDS PLC)

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2010

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## DIRECTORS AND ADVISERS

<b>DIRECTORS</b>	Dr Anna T M Mokgokong M J Madungandaba O J Lubow P H Jay	Non-Executive Chairperson Finance Director Non-Executive Director Non-Executive Director
<b>SECRETARY REGISTERED OFFICE</b>	P H Jay 100 Fetter Lane London EC4A 1BN	
<b>BANKERS</b>	HSBC Bank plc 69 Pall Mall London SW1Y 5EY	
<b>AUDITORS</b>	Deloitte LLP London	
<b>NOMINATED ADVISER AND STOCKBROKER</b>	WH Ireland Limited 4 Colston Avenue Bristol BS1 4ST	
<b>SOLICITORS</b>	Beachcroft LLP 100 Fetter Lane London EC4A 1BN	
<b>REGISTRARS</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA	
<b>COMPANY NUMBER</b>	5084775	

## NON-EXECUTIVE CHAIRPERSON'S STATEMENT

We have had a difficult year trading, however I am pleased to report that the mine has commenced small scale mining. We are reliant on the continued financial support of both the Industrial Development Corporation ("IDC") and Community Investment Holdings (Pty) Limited ("CIH"). These difficulties reflect significant cash constraints under which we have operated and also due to uncertainty relating to the economic feasibility of the resource. During the period to 30 June 2010 we recovered 2,187 carats with an average value of USD 600 from Elandsplaagte using the pan plant system. Whilst the Group has been able to achieve diamond production during the financial year, the economic viability of the mine is contingent on the extent of the mine's resources. A programme of bulk sampling work is currently being undertaken.

When I wrote to you on 30 March 2010, I reported that we intend positioning the company to take advantage of the opportunities to acquire undervalued assets. I am pleased to report that we have made good progress in identifying such opportunities and hope to make a detailed announcement regarding progress when appropriate.

On 23 April 2010 Cape announced that it had entered into a facility loan agreement with CIH for the provision of working capital in connection with its Elandsplaagte Mine ("the Loan"). The loan is for £1,300,570 of which £343,452 was unutilised at 30 June 2010. The terms and conditions of the Loan are set out in note 15(a).

In the event that opportunities arise for the Company to acquire undervalued assets as referred to above, and to facilitate issue of shares to settle further creditors, the Directors request authorities to issue shares and warrants as specified in the "SPECIAL BUSINESS" in the Directors report on page 4. In addition, the Directors also request an amendment to the Articles of Association allowing Directors to borrow as necessary.

### CHANGES IN SHARE CAPITAL

A summary of the Company's share is as follows:

#### Authorised

800 million shares of 1p each

44,596,053 deferred shares of 9p each

#### Issued

153,170,910 ordinary shares of 1p each

44,596,053 deferred shares of 9p each

During the year 6,857,144 new ordinary shares of 1p each were issued to certain Directors (refer note 23) for directors fees and 1,717,713 new ordinary shares of 1p each were issued to settle creditor balances.

### RESULTS FOR THE YEAR

The loss for the year amounts to £3.9 million compared with a loss of £2.0 million in the prior year. The results for the year include an impairment charge of £889,425 (2009: £nil) relating primarily to a write down of the DMS plant to its net realisable value.

Your Board remain determined to continue the implementation of its strategy going forward and views the future with confidence. The Directors hope to make a further update announcement to Shareholders when appropriate.

This report and accounts for the year ended 30 June 2010 is available on the Company's website at [www.caperesourcesplc.com](http://www.caperesourcesplc.com). The Annual General Meeting is convened for 11 November 2010 at 14.00 at the offices of W.H. Ireland Limited, 24 Martin Lane, London EC4R 0DR.

### PERFORMANCE POST YEAR END

Trading has been challenging during the period, and there are a number of issues facing the Group, as detailed in the Directors Report. We are addressing these issues and are cautiously optimistic of success, following evaluation of our post-year end performance.

Since year end, to the date of these financial statements, we are pleased to report that mining operations have achieved budgets, and we anticipate that operations will continue to meet budgets for the foreseeable future.

We have settled a number of outstanding creditors since year end and it is our intention to continue to settle our liabilities. We continue to work with the IDC and look forward to arriving at a mutually satisfactory conclusion with respect to settlement of our outstanding obligations.

With the continued dedication of our people, and the support of our creditors, I look forward to the future with optimism.

Dr Anna Mokgokong  
Chairperson

19 October 2010

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements, for the year ended 30 June 2010.

### RESULTS AND DIVIDENDS

The results to 30 June 2010 reflect the revenue and operating and administrative expenses of the Group.

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 11. The Directors do not recommend the payment of a dividend on the ordinary shares (2009: £nil).

Performance indicators for the Group are as follows:

	YEAR ENDED 30 JUNE 2010	YEAR ENDED 30 JUNE 2009
Property, plant and equipment	3,881,602	5,428,858
Cash and cash equivalents	124,220	22,907
Net liabilities	(5,725,012)	(1,847,478)
Loss for the year	(3,893,228)	(1,990,593)
Loss per share	2.67p	1.84p
Carats recovered	2,187	522

The performance indicators highlight that the Group has experienced difficult conditions during the year and have reported a greater loss than the prior year.

### PRINCIPAL ACTIVITIES

The main activity of the Group is to mine and extract diamonds in the Republic of South Africa. The principal activity of the Company is that of a holding company.

### DIRECTORS AND THEIR INTERESTS

The names of the Directors who served throughout the year and subsequently, except where shown otherwise, are as follows:

Dr. A T M Mokgokong	Non-Executive Chairperson
M J Madungandaba	Finance Director
O J Lubow	Non-Executive Director
S Sasson*	Executive Director
P H Jay**	Non-Executive Director

\* S Sasson resigned as Director on 30 March 2010.

\*\* P H Jay was appointed as Director on 7 April 2010.

All of the serving Directors have a service contract with the Company.

### BUSINESS REVIEW

Refer to the Chairperson's Statement on page 2 for the business review.

The interests in share capital (as defined in the Companies Act 2006) of the Directors holding office at 30 June 2010 or at their date of resignation are shown below.

NAME	NUMBER OF ORDINARY SHARES OF 1p AT 30 JUNE 2010 OR DATE OF RESIGNATION	% OF ISSUED SHARE CAPITAL
Oren Lubow	3,428,572	2.2%
Sharon Sasson	3,428,572	2.2%
Peter Jay	300,000	0.2%
Total	7,157,144	4.6%

## DIRECTORS' REPORT CONT'D

Details of share warrants granted to Directors are provided in Note 21.

Other than as set out in the preceding paragraphs, none of the Directors held any interests in the shares of the Company or its subsidiary undertakings during the year. All of the interests reported are beneficial.

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Company has purchased and maintains liability insurance for its Directors and Officers.

### TRANSACTIONS WITH DIRECTORS AND RELATED PARTIES

Details of transactions with Directors and related parties are set out in Note 23 to the accounts.

### ISSUE OF SHARES AND WARRANTS

During the year creditors with outstanding balances of £60,121 were converted to ordinary shares resulting in the issue of 1,717,713 ordinary shares of £0.01 each at a value of £0.035 each.

During the year directors' fees of £240,000 were paid to certain Directors through the issue of 6,857,144 ordinary shares of £0.01 each at a value of £0.035 each.

### SUBSTANTIAL SHAREHOLDINGS

The Company is aware that as at 30 September 2010 the following persons are interested (within the meaning of the Act) directly in 3% or more of the issued share capital of the Company:

NAME	NUMBER OF ORDINARY SHARES	% OF ISSUED SHARE CAPITAL AFTER ADMISSION
Keysha Investments 194 (Pty) Limited	100,000,000	65.29%
Forreston Limited	10,000,000	6.53%
Seaton Resources Limited	6,022,120	3.93%
WB Nominees Limited	4,596,986	3.00%

The Company is aware of the following options over ordinary shares and deferred shares:

SHAREHOLDER	OPTION HOLDER	NUMBER OF SHARES UNDER OPTION
Seaton Resources Limited	Activeminerals (Pty) Limited	5,022,120
Seaton Resources Limited	Interactive Trading 365 (Pty) Limited	1,000,000

None of the ordinary shares nor any of the deferred shares held under the above options relating to South African citizens may be transferred to the respective option holders without the relevant South African exchange control consents having been obtained.

Pending exercise of the above options the respective option holders are entitled to exercise the voting rights attached to the ordinary shares and deferred shares in respect of which the options have been granted.

### SPECIAL BUSINESS

As explained in the Chairperson's statement on page 2, the following resolutions constituting Special Business will be proposed at the Annual General Meeting on 11 November 2010.

Resolution 7 is proposed as an ordinary resolution in accordance with Section 551 of the Companies Act 2006 to provide the Directors with authority to allot relevant securities up to a maximum nominal amount of £10,000 (in pursuance of the exercise of outstanding warrants granted by the Company prior to the date hereof but for no other purpose), up to a maximum nominal amount of £140,000 (in pursuance of the exercise of warrants to be granted by the Company after the date hereof but for no other purpose) and, in addition, up to an aggregate nominal amount of £10 million. Such authorities, unless duly renewed, varied or revoked by the Company, will expire on the date being fifteen months from the date of the passing of the resolution or, if earlier, the conclusion of the next annual general meeting of the Company to be held after the passing of the resolution, save that the Company may, before such expiry, make offers or agreements which would or might require relevant securities to be allotted after such expiry and, the Directors may allot relevant securities in pursuance of such an offer or agreement notwithstanding that the authority conferred by the resolution has expired.

Resolution 8 is proposed as a special resolution to seek authority for the Directors to allot equity securities (as defined by Section 560 of the Companies Act 2006) on a non pre-emptive basis in connection with an offer by way of a rights issue, on the exercise of outstanding warrants granted by the Company prior to the date hereof, on the exercise of warrants to be granted by the Company after the date hereof and, in addition, up to an aggregate nominal amount of £10 million. Such authorities will expire on the date being fifteen months from the date of the passing of the resolution or, if earlier, the conclusion of the next annual general meeting of the Company to be held after the passing of the resolution (unless renewed, varied or revoked by the Company prior to or on such date), save that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and, the Directors may allot equity securities in pursuance of such an offer or agreement notwithstanding that the authority conferred by the resolution has expired.

Resolution 9 is proposed as a special resolution to seek permission to amend the Company's articles of association by

deleting article 29 in its entirety and substituting for it a new article 29 which does not limit the Directors borrowing powers.

#### **SUPPLIER PAYMENT POLICY**

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Group at 30 June 2010 were equivalent to 194 (2009: 433) days' purchases, based on the average daily amount invoiced by suppliers during the year. A long outstanding creditor balance of £680,000 which the Directors believe shall not be paid in the period has distorted this average.

#### **FIXED ASSETS**

In the opinion of the Directors the current open market value of the Group's interests in land and buildings and other assets is not less than their book value.

#### **IMPAIRMENT**

A review was carried out on each class of asset taking into account present circumstances, the value of anticipated future cash flows, costs to be incurred to achieve these and resale values. This review resulted in an impairment charge of £889,425 in the consolidated Statement of Comprehensive Income.

#### **EVENTS AFTER THE BALANCE SHEET DATE**

The relevant information can be found in Note 22.

#### **EMPLOYEE CONSULTATION**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

#### **ENVIRONMENTAL MATTERS**

Regular tests are carried out to ensure that the mine operates within safe environmental conditions.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Directors consider that there are the following material risks associated with the Group's operations:

- geological risks associated with the development of the Group's resources;
- environmental hazards, industrial and mechanical accidents and occupational health hazards;

- labour disputes, unscheduled shut-downs or other processing problems and technical failures; and
- Going concern – The risks and uncertainties related to going concern are fully detailed below.

The Group is vulnerable to additional risks which are detailed in Note 17.

#### **GOING CONCERN**

The Group has recorded a loss of £3.9 million in the current year. Over the past 12 months the DMS plant at the Elandsplaagte mine remained in care and maintenance and the Group has continued operations with the pan plant.

In considering going concern and future cash flows for the next 12 months, management have made the following material assumptions:

- The overdue loan of £7.24 million from the IDC which is accruing interest monthly with no cash repayments made since yearend. Continuous negotiations are taking place between the Directors and the IDC. The IDC has confirmed in writing that they will not take any legal action regarding their loan within the period of negotiations. The Directors believe negotiations will successfully conclude and assume repayment will not occur in the foreseeable future.
- 5,257 carats of diamonds to be recovered at an average price of USD640, reflecting higher recovery rates than recent experience, due to higher volumes of virgin ore being processed, deriving positive operating cash flow before settling creditors.
- Continued funding from CIH a related party. The unutilised facility at 30 June 2010 amounted to £343,452. Further advances of £103,007 were granted to the Group post year end and at the date of this report £240,445 remained unutilised. Based on preliminary discussions with CIH, the directors assume repayment will not occur in the foreseeable future compared with the current repayment terms which are no later than April 2011. The Directors do not assume any further funding from CIH above the amounts already agreed, as if required there is an uncertainty as to whether or not CIH will be forthcoming with future advances.
- It is assumed that management would be able to negotiate corrective measures with SARB on the exchange control contravention (note 20(b)) and therefore no provision has been made in the cash flow assumptions. The application to the SARB is in the process of being drafted.
- Creditors of the parent company, excluding a long-standing amount of £680,000 which the Directors believe will not be paid in the foreseeable future, will be settled

## DIRECTORS' REPORT CONT'D

### GOING CONCERN (CONTINUED)

from a combination of operating cash flow and further draw downs from the existing CIH facility.

These assumptions are based on the following facts:

### CONTINUED SUPPORT OF THE IDC

The Group is currently in negotiations to extend the repayment of this loan and the IDC have confirmed in writing that they are aware of the situation and are working with the directors to determine the best way forward. They have also confirmed in writing that they will not take legal action while negotiations with the Directors are on-going unless the directors make a decision to liquidate the operating subsidiary Golden Falls. The IDC are currently reviewing managements' proposals. Should the IDC and management be unable to find a suitable solution to repay the loan, the IDC might consider taking action by exercising their rights. The loan is secured by a charge over the movable assets (excluding diamond stock and a specific crusher) of Golden Falls.

There is an uncertainty as to whether or not the IDC loan will be renegotiated or the IDC will exercise their rights and require the loan to be repaid in the period.

### ECONOMIC VIABILITY OF MINING ELANDSLAAGTE

Whilst the Group has been able to achieve diamond production during the financial year, the economic viability of the mine is contingent on the extent of the mine's resources. A programme of bulk sampling work is currently being undertaken. The group commenced small scale mining operations whilst the program of bulk sampling work is continuing.

### VALUE OF ROUGH DIAMONDS

In addition to the availability of diamond resources, the Group's future revenue is also dependent on the price per carat that the Group is able to achieve in the open market which is subject to market demands and for this reason the future prices the Group will be able to achieve are uncertain.

### CONTINUED SUPPORT OF CIH

The Group has negotiated a facility from CIH of £1,300,571. The terms and conditions of the facility are set out in note 15(a). The unutilised facility at 30 June 2010 amounted to £343,452. Further advances of £103,007 were granted to the Group and at the date of this report £240,445 remained unutilised.

### SARB PENALTY

As disclosed in note 20(b) there is a contingent liability related to potential exchange control contraventions.

There is an uncertainty as to whether or not any penalty will need to be paid and if cash will be available to pay it.

### CASH FLOWS

Based on the above factors, there may be insufficient cash flow for the Group to manage its day-to-day operations without seeking and relying on further financing, which may or may not be available.

The Group is pursuing a number of opportunities to expand and grow the business and restructure its finances in order to secure its future.

The Directors have concluded that the combination of the circumstances noted above represents a material uncertainty that casts significant doubt upon the Group's and Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, and after making enquiries, reviewing forecast cash flows and considering the uncertainties described above, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group and Company can access adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements.

The financial statements do not include the adjustments that would result if the Group or the Company was unable to continue as a going concern as it is not practicable to determine or quantify them.

### DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the Directors at the date of approval of this annual report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

### AUDITORS

Deloitte LLP have expressed their willingness to continue in office as auditors. A resolution proposing the re-appointment of Deloitte LLP will be put to the shareholders at the Annual General Meeting.

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

Dr Anna T M Mokgokong  
Non-Executive Chairperson

19 October 2010

## CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance and the guidelines set out in the Principles of Good Corporate Governance and Code of Best Practice (the “Combined Code”). Whilst AIM companies are not obliged to comply with the Combined Code, the Directors do intend to comply with the Combined Code so far as is appropriate having regard to the size and nature of the various companies making up the Group. The Board will take such measures so far as practicable to comply with the Combined Code and in addition, the Quoted Companies Alliance (“QCA”) Guidelines for AIM Companies.

The Board has put in place the corporate governance procedures they believe are appropriate for the Company and Group.

The Board retains full and effective control over the Group. The Company holds regular Board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. Apart from the regular meetings, additional meetings are arranged when necessary to review strategy, planning, operational, financial performance, risk and capital expenditure and human resources and environmental management. The Board is also responsible for monitoring the activities of the executive management. To enable the Board to perform its duties, all Directors have full access to all relevant information and to the service of the Company Secretary. If necessary the Non-Executive Directors may take independent professional advice at the Group’s expense.

The Company does not currently have a Chief Executive Officer but is managed by the Board of Directors. They monitor the situation on an ongoing basis and will appoint a Chief Executive Officer if there is any change in circumstances which will warrant a full time appointment.

### THE AUDIT COMMITTEE

The current audit committee comprises of Mr Joe Madungandaba and Mr Oren Lubow and is chaired by Mr Oren Lubow. A UK Chartered Accountant has been available as a consultant to the committee to advise on matters relating to the UK. The audit committee meets at least twice a year. The committee reviews the Group’s annual and interim financial statements before submission to the Board for approval. The committee reviews regular reports from management and the external auditors on accounting and internal control matters. Where appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.

### THE REMUNERATION COMMITTEE

The remuneration committee comprises Dr Anna Mokgokong and Mr Oren Lubow and is chaired by Mr Oren Lubow. It is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration paying due regard to the interests of shareholders as a whole and the performance of the Group. The remuneration committee also determines allocations of any warrants or options granted under any share option scheme adopted by the Company in the future and is responsible for setting any performance criteria in relation to exercise of warrants granted under the Warrant Deeds and any such share options which may be granted.

Details of the remuneration paid to the Directors are shown in Notes 23 and 25.

The contingency related to the Directors’ waiver is disclosed in Note 20(c).

The Directors comply with Rule 21 of the AIM Rules for Companies relating to Directors’ dealings and take all reasonable steps to ensure compliance by the Company’s applicable employees. The Company operates a share dealing code for Directors and employees in accordance with the AIM Rules for Companies.

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under 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. In preparing these financial statements, International Accounting Standard 1 requires that 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 disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Board's statement on going concern is included in the Directors' Report.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### **RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company 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 review of the development and performance of the business and the position of 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.

By order of the Board  
Finance Director  
M J Madungandaba

19 October 2010

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPE RESOURCES PLC

We have audited the financial statements of Cape Resources Plc for the year ended 30 June 2010 which comprise the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statements of cash flows, the Consolidated and Company Statement of Changes in Equity and the related notes 1 to 33. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

## OPINION ON FINANCIAL STATEMENTS

In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 30 June 2010 and of the Group's and the Company's loss for the year then ended;
- > the financial statements have been properly prepared in accordance with the IFRSs as adopted by the European Union; 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 qualified, we have considered the adequacy of the disclosure made in Note 1 to the financial statements concerning the Group and Company's ability to continue as a going concern.

The Group has net liabilities of £5,725,012 including a loan of £7,239,772 (Company: net liabilities of £1,207,386) due within one year, and its short and long term operating cash flows are affected by a number of material risks and uncertainties, including the level of diamond production achievable from the Group's mine and, in particular, the ability of the Group and the Company to repay outstanding loans.

These factors, together with the existence of other material uncertainties as described in Note 1, may cast significant doubt about the Group and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or Company was unable to continue as a going concern.

## OPINION ON OTHER MATTERS 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.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CAPE RESOURCES PLC CONT'D

### **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 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.

We reviewed:

- > the Directors' statement contained within the Directors' Report in relation to going concern.

Deborah Thomas (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors  
London, United Kingdom

19 October 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## YEAR ENDED 30 JUNE 2010

	NOTES	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Revenue	4(a)	732,729	27,202
Other operating income	4(b)	–	3,080
<b>Total income</b>		<b>732,729</b>	<b>30,282</b>
Administrative expenses		(511,716)	(494,099)
Impairment of assets	11(a)	(889,425)	–
Other operating expenses		(2,337,114)	(942,712)
<b>Operating loss</b>	<b>5</b>	<b>(3,005,526)</b>	<b>(1,406,529)</b>
Investment income	4(b)	4,638	14,946
Finance costs	7	(892,340)	(599,010)
<b>Loss before taxation</b>		<b>(3,893,228)</b>	<b>(1,990,593)</b>
Taxation	8	–	–
<b>Loss for the year</b>		<b>(3,893,228)</b>	<b>(1,990,593)</b>
<b>Other comprehensive loss</b>			
Exchange differences on translation of foreign operations		(284,426)	(152,214)
<b>Total comprehensive loss for the year</b>		<b>(4,177,654)</b>	<b>(2,142,807)</b>
Attributable to:			
Equity holders of the parent		(4,177,654)	(1,877,698)
Minority interest		–	(265,109)
		<b>(4,177,654)</b>	<b>(2,142,807)</b>
<b>Loss per share</b>			
Basic and diluted	10	2.67p	1.84p

The above results all relate to continuing operations

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2010

	NOTE	30 JUNE 2010 £	30 JUNE 2009 £
<b>Non-current assets</b>			
Property, plant and equipment	11(a)	3,881,602	5,428,858
Investments	11(b)	209,753	172,467
		<b>4,091,355</b>	<b>5,601,325</b>
<b>Current assets</b>			
Diamond Stock	12	79,582	–
Inventory	12	53,384	63,332
Trade and other debtors	13	207,218	330,336
Cash and cash equivalents	14	124,220	22,907
		<b>464,404</b>	<b>416,575</b>
<b>Total assets</b>		<b>4,555,759</b>	<b>6,017,900</b>
<b>Current liabilities</b>			
Trade and other payables	15(a)	(9,876,711)	(7,514,865)
Provisions	16(a)	(14,269)	(5,257)
		<b>(9,890,980)</b>	<b>(7,520,122)</b>
<b>Net current liabilities</b>		<b>(9,426,576)</b>	<b>(7,103,547)</b>
<b>Non-current liabilities</b>			
Provisions	16(b)	(389,791)	(345,256)
Long-term liabilities	15(b)	–	–
		<b>(389,791)</b>	<b>(345,256)</b>
<b>Total liabilities</b>		<b>(10,280,771)</b>	<b>(7,865,378)</b>
<b>Net liabilities</b>		<b>(5,725,012)</b>	<b>(1,847,478)</b>
<b>Equity</b>			
Share capital	18	5,545,354	5,459,605
Share premium		28,314,151	28,099,780
Translation reserve		179,785	464,211
Accumulated loss		(39,764,302)	(35,871,074)
<b>Equity attributable to equity holders of the parent</b>		<b>(5,725,012)</b>	<b>(1,847,478)</b>
Minority interest		–	–
<b>Total deficit</b>		<b>(5,725,012)</b>	<b>(1,847,478)</b>

These financial statements (company number: 5084775) were approved by the Board of Directors and authorised for issue on 19 October 2010. Signed on behalf of the Board of Directors by:

M J Madungandaba  
Director

## CONSOLIDATED STATEMENT OF CASH FLOWS

### YEAR ENDED 30 JUNE 2010

	NOTE	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Net cash outflow from operating activities	19	(753,185)	(577,737)
<b>Investing activities</b>			
Interest received		4,638	14,946
Acquisition of property, plant and equipment		(2,813)	(350,581)
Acquisition of investment		–	(53,171)
Net cash generated/(used) in investing activities		1,825	(388,806)
<b>Financing activities</b>			
Share issue expenses		–	(144,761)
Loans received		847,198	1,000,000
Interest paid		(1,327)	(1,844)
Net cash generated by financing activities		845,871	853,395
Net increase/(decrease) in cash and cash equivalents		94,511	(113,148)
Cash and cash equivalents at beginning of the year		22,907	114,078
Effect of foreign exchange rate changes		6,802	21,977
Cash and cash equivalents at end of the year		124,220	22,907

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 30 JUNE 2010	SHARE CAPITAL £	SHARE PREMIUM £	TRANSLATION RESERVE £	ACCUMULATED (LOSS)/PROFIT £	MINORITY INTEREST £	TOTAL £
At 1 July 2008	4,459,605	28,244,541	642,441	(34,171,606)	265,109	(559,910)
Loss for the year	–	–	–	(1,699,468)	(291,125)	(1,990,593)
Shares issued	1,000,000	–	–	–	–	1,000,000
Share issue expenses	–	(144,761)	–	–	–	(144,761)
<b>Other comprehensive income/(loss)</b>						
Exchange differences on translation of overseas operations	–	–	(178,230)	–	26,016	(152,214)
At 1 July 2009	5,459,605	28,099,780	464,211	(35,871,074)	–	(1,847,478)
Loss for the year	–	–	–	(3,893,228)	–	(3,893,228)
Shares issued	85,749	214,371	–	–	–	300,120
<b>Other comprehensive income/(loss)</b>						
Exchange differences on translation of overseas operations	–	–	(284,426)	–	–	(284,426)
At 30 June 2010	5,545,354	28,314,151	179,785	(39,764,302)	–	(5,725,012)

The translation of the Group's foreign operations to the Group's functional currency at each balance sheet gives rise to a foreign exchange difference that is initially recorded as a separate component of the equity in the translation reserve. This reserve is recognised in the income statement on the disposal of the foreign operation.

The subsidiaries in which the primary shareholders have an interest are loss making, therefore minority interest has been written down to nil.

## COMPANY STATEMENT OF COMPREHENSIVE INCOME

### YEAR ENDED 30 JUNE 2010

	NOTES	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
<b>Continuing operations</b>			
Administrative expenses		(366,543)	(227,977)
Impairment	30(a)	–	(1,209,351)
<b>Loss from operations</b>	26	<b>(366,543)</b>	<b>(1,437,328)</b>
Interest income	27	4	1,032
<b>Loss before taxation</b>		<b>(366,539)</b>	<b>(1,436,296)</b>
Taxation	8	–	–
<b>Loss for the year</b>		<b>(366,539)</b>	<b>(1,436,296)</b>
<b>Total Comprehensive Loss</b>		<b>(366,539)</b>	<b>(1,436,296)</b>

## COMPANY STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2010

	NOTE	30 JUNE 2010 £	30 JUNE 2009 £
<b>Non-current assets</b>			
Investment in subsidiaries	30(a)	–	–
		–	–
<b>Current assets</b>			
Trade and Other debtors	31	22,125	50,732
Cash and cash equivalents		59	13,150
		22,184	63,882
<b>Total assets</b>		<b>22,184</b>	<b>63,882</b>
<b>Current liabilities</b>			
Trade and Other payables	32	(1,229,570)	(1,204,849)
<b>Total liabilities</b>		<b>(1,229,570)</b>	<b>(1,204,849)</b>
<b>Net current liabilities</b>		<b>(1,207,386)</b>	<b>(1,140,967)</b>
<b>Net liabilities</b>		<b>(1,207,386)</b>	<b>(1,140,967)</b>
<b>Equity</b>			
Share capital	18	5,545,354	5,459,605
Share premium		28,314,151	28,099,780
Accumulated loss		(35,066,891)	(34,700,352)
<b>Total deficit attributable to equity holders of the parent</b>		<b>(1,207,386)</b>	<b>(1,140,967)</b>

These financial statements were approved by the Board of Directors and authorised to issue on 19 October 2010.  
Signed on behalf of the Board of Directors by:

M J Madungandaba  
Director

## COMPANY CASH FLOW STATEMENT

### YEAR ENDED 30 JUNE 2010

	NOTE	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Net cash outflow from operating activities	33	(13,095)	(20,339)
<b>Investing activities</b>			
Interest received		4	1,032
Loans to subsidiary		–	(899,779)
Net cash generated from/(used in) investing activities		4	(898,747)
<b>Financing activities</b>			
Loan raised		–	1,000,000
Share issue expenses		–	(144,761)
Net cash inflow from financing activities		–	855,239
Net decrease in cash and cash equivalents		(13,091)	(63,847)
Cash and cash equivalents at beginning of the year		13,150	76,997
Cash and cash equivalents at end of the year		59	13,150

## COMPANY STATEMENT OF CHANGES IN EQUITY

### AS AT 30 JUNE 2010

	SHARE CAPITAL £	SHARE PREMIUM £	ACCUMULATED LOSS £	TOTAL £
At 1 July 2008	4,459,605	28,244,541	(33,264,056)	(559,910)
Net loss for the year	–	–	(1,436,296)	(1,436,296)
Shares issued	1,000,000	–	–	1,000,000
Share issue expenses	–	(144,761)	–	(144,761)
At 1 July 2009	5,459,605	28,099,780	(34,700,352)	(1,140,967)
Shares issued	85,749	214,371	–	300,120
Net loss for the year	–	–	(366,539)	(366,539)
Balance at 30 June 2010	5,545,354	28,314,151	(35,066,891)	(1,207,386)

The Directors do not recommend the payment of a dividend on the ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS

## YEAR ENDED 30 JUNE 2010

### 1. GOING CONCERN BASIS

The Group has recorded a loss of £3.9 million in the current year. Over the past 12 months the DMS plant at the Elandsplaagte mine remained in care and maintenance and the Group has continued operations with the pan plant.

In considering going concern and future cash flows for the next 12 months, management have made the following material assumptions:

- The overdue loan of £7.24 million from the IDC which is accruing interest monthly with no cash repayments made since yearend. Continuous negotiations are taking place between the Directors and the IDC. The IDC has confirmed in writing that they will not take any legal action regarding their loan within the period of negotiations. The Directors believe negotiations will successfully conclude and assume repayment will not occur in the foreseeable future.
- 5,257 carats of diamonds to be recovered at an average price of USD640, reflecting higher recovery rates than recent experience, due to higher volumes of virgin ore being processed, deriving positive operating cash flow before settling creditors.
- Continued funding from CIH a related party. The unutilised facility at 30 June 2010 amounted to £343,452. Further advances of £103,007 were granted to the Group post year end and at the date of this report £240,445 remained unutilised. Based on preliminary discussions with CIH, the directors assume repayment will not occur in the foreseeable future compared with the current repayment terms which are no later than April 2011. The Directors do not assume any further funding from CIH above the amounts already agreed, as if required there is an uncertainty as to whether or not CIH will be forthcoming with future advances.
- It is assumed that management would be able to negotiate corrective measures with SARB on the exchange control contravention (note 20(b)) and therefore no provision has been made in the cash flow assumptions. The application to the SARB is in the process of being drafted.
- Creditors of the parent company, excluding a long-standing amount of £680,000 which the Directors believe will not be paid in the foreseeable future, will be settled from a combination of operating cash flow and further draw downs from the existing CIH facility.

These assumptions are based on the following facts:

#### CONTINUED SUPPORT OF THE IDC

The Group is currently in negotiations to extend the repayment of this loan and the IDC have confirmed in

#### CONTINUED SUPPORT OF THE IDC (CONTINUED)

writing that they are aware of the situation and are working with the directors to determine the best way forward. They have also confirmed in writing that they will not take legal action while negotiations with the Directors are on-going unless the directors make a decision to liquidate the operating subsidiary Golden Falls. The IDC are currently reviewing managements's proposals. Should the IDC and management be unable to find a suitable solution to repay the loan, the IDC might consider taking action by exercising their rights. The loan is secured by a charge over the movable assets (excluding diamond stock and a specific crusher) of Golden Falls.

There is an uncertainty as to whether or not the IDC loan will be renegotiated or the IDC will exercise their rights and require the loan to be repaid in the period.

#### ECONOMIC VIABILITY OF MINING ELANDSPLAAGTE

Whilst the Group has been able to achieve diamond production during the financial year, the economic viability of the mine is contingent on the extent of the mine's resources. A programme of bulk sampling work is currently being undertaken. The group commenced small scale mining operations whilst the program of bulk sampling work is continuing.

#### VALUE OF ROUGH DIAMONDS

In addition to the availability of diamond resources, the Group's future revenue is also dependent on the price per carat that the Group is able to achieve in the open market which is subject to market demands and for this reason the future prices the Group will be able to achieve are uncertain.

#### CONTINUED SUPPORT OF CIH

The Group has negotiated a facility from CIH of £1,300,571. The terms and conditions of the facility are set out in note 15(a). The unutilised facility at 30 June 2010 amounted to £343,452. Further advances of £103,007 were granted to the Group and at the date of this report £240,445 remained unutilised.

#### SARB PENALTY

As disclosed in note 20(b) there is a contingent liability related to potential exchange control contraventions.

There is an uncertainty as to whether or not any penalty will need to be paid and if cash will be available to pay it.

#### CASH FLOWS

Based on the above factors, there may be insufficient cash flow for the Group to manage its day-to-day operations without seeking and relying on further financing, which may or may not be available.

The Group is pursuing a number of opportunities to expand and grow the business and restructure its finances in order to secure its future.

The Directors have concluded that the combination of the circumstances noted above represents a material uncertainty that casts significant doubt upon the Group's and Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, and after making enquiries, reviewing forecast cash flows and considering the uncertainties described above, the Directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group and Company can access adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements.

The financial statements do not include the adjustments that would result if the Group or the Company was unable to continue as a going concern as it is not practicable to determine or quantify them.

## 2. GENERAL INFORMATION

Cape Resources Plc is a company incorporated in Great Britain and registered in England and Wales under the Companies Act 2006. It was incorporated on 25 March 2004 under the name of Dominion Mining Plc and changed its name to Cape Diamonds Plc on 26 January 2006 and to Cape Resources Plc effective 15 January 2010. The registered office is detailed on page 1. The Group's principal activities are discussed in the Directors' Report.

This financial information is presented in pounds sterling. The currency of the primary economic environment in which the Group operates is South African Rand ("R"). Foreign operations are consolidated in accordance with the policies set out in note 3.

## ADOPTION OF NEW AND REVISED STANDARDS

The entity adopted the following revised pronouncements during the current year:

Standards and Interpretations effective in the current period

The following are Standards and Interpretations which are effective for the first time in the current period.

Standards affecting presentation and disclosure

- IAS 1 (revised 2007) – Presentation of Financial Statements, requires non-owner changes in equity to be shown in either one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present one statement.
- IFRS 7 – Improving Disclosures about Financial Instruments, increases the disclosure requirements for fair value measurements and reinforces existing principles for disclosure of liquidity risk.

- IFRS 8 – Operating Segments, requires that disclosure of financial information be made which is consistent with that used by the Group's Chief Executive for the purpose of resource allocation and assessment of segment performance.

Standards not affecting the reported results nor the financial position

- IAS 23 (revised) – Borrowing costs – eliminates the option to expense borrowing costs for qualifying assets.
- IAS 32 (amended) – Puttable financial instruments – results in some financial instruments that currently meet the definition of a financial liability being classified as equity as they represent a residual interest.
- IFRS 3 (revised 2008) – Business combinations – makes a number of changes to the accounting for business combinations, including requirements that all payments to purchase a business are to be recorded at fair value at acquisition date, with some contingent payments subsequently re-measured at fair value through income; an option to calculate goodwill based on the parent's share of net assets only or to include goodwill related to the minority interest; and a requirement that all transaction costs be expensed. This revision is effective for business combinations for which the acquisition is in the first annual reporting period commencing after 1 July 2009.
- IAS 27 (revised 2008) – Consolidated and separate financial statements – requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The revised standard also specifies the accounting when control is lost. This revision is effective for accounting periods beginning on or after 1 July 2009.
- IAS 38 (amendment) – Intangible assets – amendment effective for accounting periods beginning on or after 1 July 2009.
- IAS 39 – Financial Instruments: recognition and measurement – eligible hedged items – revision applies retrospectively for accounting periods beginning on or after 1 July 2009.
- IFRIC 17 – Distribution of non-cash assets to owners – effective for accounting periods beginning on or after 1 July 2009.
- IFRIC 18 – Transfers of assets from customers – effective for accounting periods beginning on or after 1 July 2009.

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 2. GENERAL INFORMATION (CONTINUED)

- IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations – effective for accounting periods beginning on or after 1 July 2009.
- IFRIC 9 – Reassessment of embedded derivatives.

### ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

- IFRIC 15 – Arrangements for construction of real estate.
- IFRIC 16 – Hedges of a net investment in a foreign operation.

In the opinion of the directors the changes in Standards which have come into affect impact neither the reported results nor the financial position of the Group.

### STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED

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:

- IAS 1 (amendment) – Presentation of financial statements – amendment effective for accounting periods beginning on or after 1 January 2010.
- IFRS 2 (amendment) – Share-based payment – amendment effective for accounting periods beginning on or after 1 January 2010.
- IFRS 9 – Financial instruments – classification and measurement – effective for accounting periods beginning on or after 1 January 2013.

The directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

### COMPARATIVE FIGURES

The comparative figures cover the year ended 30 June 2009.

### EXCHANGE RATES

The R/£ exchange rates for the year are as follows:

	2010	2009
Year end rate	11.53	13.02
Average rate for the year	12.21	14.47

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are carried at fair value or amortised cost and in accordance with International Financial Reporting Standards. The principal accounting policies adopted, which have been consistently applied, are set out below.

#### BASIS OF CONSOLIDATION

The financial statements incorporate the results of the Company and entities controlled by the Company (its subsidiaries) up to 30 June each year. Control is achieved where the Company has the power to govern the investee entity's financial and operating policies so as to obtain benefits from its activities or where the Group owns either directly or indirectly, the majority of a company's equity voting rights unless, in exceptional circumstances it can be demonstrated that ownership does not constitute control.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

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

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

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

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

#### BUSINESS COMBINATIONS

The acquisition of subsidiaries and minority interests is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquisition, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5

Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

Where the Group makes further acquisitions in investments it already holds, the assets and liabilities of the investment are reassessed and their revised fair values are recognised. Goodwill is accordingly adjusted.

#### REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

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 amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### FOREIGN CURRENCIES

The financial information of each individual Group subsidiary is presented in South African Rand, the currency of the primary economic environment in which these companies operate (their functional currency). For the purpose of the consolidated financial information, the results and financial position of each Group company are expressed in pound sterling which is the presentation currency for the consolidated financial information.

In preparing the financial information of the individual companies, 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 translated at the rates prevailing at 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 retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss account 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 re-translation of non-monetary items where gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial information, 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 fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the 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.

#### BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

#### OPERATING LOSS

Operating loss is stated before investment income and finance costs.

#### TAX

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial information 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

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 difference arises 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.

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 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.

#### PROPERTY, PLANT AND EQUIPMENT

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at cost, being the fair value at the date of acquisition, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

> Plant and equipment	20%
> Furniture and fittings	20%
> Office equipment	20%
> Computer equipment	33%

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

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

#### MINING DEVELOPMENT

Mining development costs comprise development and exploration costs on mineral exploration prospects.

Exploration costs are accumulated separately for each area of interest (an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proven to contain such a deposit) and are carried forward on the following basis:

- Each area of interest is considered separately when deciding whether and to what extent to carry forward an asset or write-off costs. An asset, as defined, is a resource controlled by the company as a result of past events.
- Rights to prospect in the area of interest are current, and there is a reasonable possibility that such costs will be recouped through successful development and exploitation of the area of interest.

Costs of mining properties and leases, which include the costs of acquiring and developing mining properties and mineral rights, are capitalised as tangible non-current assets in the period in which they are incurred. When a decision is taken that a mining property is viable for commercial production, all further expenditure is expensed.

Mining properties and leases are amortised on a unit of production basis over the total estimated remaining life of the mine, once commercial production commences, using estimated economically recoverable proven and probable ore reserves.

The carrying values of exploration assets are reviewed by the Directors where results of exploration of an area of interest are sufficiently advanced to permit a reasonable estimate of the costs expected to be recouped through successful developments and exploitation of the area of interest. Expenditure in excess of this estimate is written off to the income statement in the period in which the review occurs.

At each reporting date, management assesses whether there is any indication that exploration and evaluation expenditure carried forward per area may be impaired. If any such impairment exists, the carrying amount is written down to the higher of net selling price and value in use.

All expenditure, generated by diamonds recovered, incurred on mining areas where commercial production has not commenced are expensed.

#### IMPAIRMENT OF TANGIBLE ASSETS EXCLUDING GOODWILL

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

The 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 their 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.

#### INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

#### PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

#### SHARE-BASED PAYMENTS

The Group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 8 September 2005 that were unvested as of 30 June 2010.

The Group issues equity-settled and cash-settled share-based payments to certain employees and consultants. Equity-settled share-based payments are measured at fair

value (excluding the effect of non market-based vesting conditions) at the date of grant. 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 shares that will eventually vest and adjusted for the effect of non market-based vesting conditions. Share warrants granted are stated at par value when issued.

Fair value is measured by use of a binomial option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

#### REHABILITATION ASSETS

Rehabilitation assets are recorded at the estimated value of the long-term environmental obligation based on the Group's environmental management plan in compliance with regulatory and other requirements. Amortisation of rehabilitation assets are calculated on a unit of production basis using estimated economically recoverable proved and probable ore reserves.

#### FINANCIAL INSTRUMENTS

##### Initial recognition and measurement

All financial instruments are recognised on the balance sheet. Financial instruments are initially recognised when the Company becomes party to the contractual terms of the instruments and are measured at cost, which is the fair value of the consideration given for financial asset or received for financial liability or equity instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangement on initial recognition. Transaction costs are included in the initial measurement of the financial instrument. Subsequent to initial recognition these instruments are measured as set out below.

##### Financial assets

The Company's principal financial assets are subsidiary loans, other receivables, deposits and cash and cash equivalents and an insurance policy held as security for the rehabilitation provision all held at fair value.

##### De-recognition

Financial assets (or a portion thereof) are de-recognised when the Company realises the rights to the benefits specified in the contract, the rights expire or the Company surrenders or otherwise loses control of the contractual rights that comprise the financial asset. On de-recognition, the difference between the carrying amount of the financial asset and proceeds receivable is included in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (or a portion thereof) are de-recognised when the obligation specified in the contract is discharged, cancelled or expired. On de-recognition, the difference between the carrying amount of the financial liability, including related unamortised costs, and amount paid for it is included in the income statement.

#### INVESTMENTS

Investments are recognised on a trade-date basis and are initially measured at cost, including transaction costs. At subsequent reporting dates, debt securities that the company has the expressed intention and ability to hold to maturity (held-to-maturity) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investment other than held-to-maturity debt securities are classified as either held-for-trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Settlement date accounting is applied to all investments made.

On the disposal of any investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

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

#### FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

#### BANK BORROWINGS

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### TRADE PAYABLES

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

#### CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the Group's accounting policies, which are described above, management has made no critical judgement that have a significant effect on the amounts recognised in the financial statements, apart from those involving estimations, which are dealt with below.

#### KEY SOURCES OF ESTIMATION UNCERTAINTY

##### FAIR VALUE OF WARRANTS ISSUED

Warrants granted are fair valued. The fair value of equity-based share warrants is estimated at the date of grant using an option-pricing model, taking into account the terms and conditions upon which the warrants were granted. The expected life of the warrants is based on academic research and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the comparator's volatility of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

##### FAIR VALUE OF MINING PROPERTIES

The key source of estimation uncertainty at the balance sheet date relating to the future, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year concerns the fair value of the mining development, which was determined based on surveyed tonnes of ore in-situ and the waste, ore and treatment cost per tonne, and the DMS plant. Any significant change in these costs per tonne could result in a change in the carrying value of the asset.

##### REHABILITATION PROVISION

Rehabilitation provision is recorded at the estimated value for the rehabilitation of mining site when mining activities cease, based on the Group's environmental plan.

**4(a). REVENUE – GROUP**

In 2010, net revenue of £732,729 (2009: £27,202) was generated from the sale of diamonds. All sales of goods were made in the South African market which is the Group's only segment.

**4(b). INVESTMENT AND OTHER INCOME – GROUP**

	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Interest on bank deposits	4,638	14,946
Other operating income	–	3,080
	<b>4,638</b>	<b>18,026</b>

**5. OPERATING LOSS – GROUP**

Loss from operations has been arrived at after charging:

	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Net foreign exchange loss/(gains)	14,338	(109,720)
Depreciation	1,235,685	298,672
Impairment (note 11(a))	889,425	–
Staff costs (note 6)	445,902	440,135
Share-based payment (note 21)	240,000	–

The analysis of auditors' remuneration is as follows:

	2010 £	2009 £
Fees payable to the Company's auditors for the audit of the Company's annual accounts	5,000	5,000
The audit of the Company's subsidiaries pursuant to legislation		
– Group	35,000	25,000
– South Africa	74,887	93,907
<b>Total audit fees</b>	<b>114,887</b>	<b>123,907</b>
Other services – South Africa	–	–
<b>Total non-audit fees</b>	<b>7,000</b>	<b>–</b>
<b>Total fees</b>	<b>121,887</b>	<b>123,907</b>

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

**6. STAFF COSTS – GROUP**

	YEAR ENDED 30 JUNE 2010 NO	YEAR ENDED 30 JUNE 2009 NO
The average number of employees (excluding executive Directors) was	54	58
Number of Directors	4	4
	58	62
	£	£
Emoluments for qualifying services:		
Highest paid Director (note 23)	120,000	–
Staff costs including Directors:		
Wages and salaries – UK	240,000	–
– South Africa	445,902	440,135
	<b>685,902</b>	<b>440,135</b>

Total staff costs include amounts paid to certain Directors of £240,000 (2009: £nil). See Note 20(c), 23 and 25.

No retirement benefits are accruing to Directors under pension schemes. There is no amount payable in respect of retirement benefits to either Directors or employees under any pension scheme in either period.

**7. FINANCE COSTS – GROUP**

	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Other interest	1,327	1,844
Interest on IDC loans	891,013	597,166
<b>Total finance costs</b>	<b>892,340</b>	<b>599,010</b>

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 8. TAXATION – GROUP

Analysis of tax credit	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Current tax		
UK corporation tax	–	–
South African tax	–	–
Total tax credit	–	–
	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
Loss before tax	(3,893,228)	(1,990,593)
Tax at the UK Corporation tax rate of 28% (2009: 28%)	1,090,104	557,366
Tax effect of impairment of assets	(249,039)	–
Tax effect of amounts that are not deductible in determining taxable profit	(345,992)	(272,674)
Tax effect of tax losses not recognised	(495,073)	(284,692)
Total tax credit	–	–

The Group is carrying forward estimated tax losses of £4.1 million (2009: £3.7 million) in the United Kingdom.

The estimated assessed losses in South Africa amount to £18.9 million (2009: £15.4 million).

No deferred tax asset has been raised in respect of these carried forward losses due to the uncertainty over the availability of taxable profit against which these losses may be offset in the foreseeable future.

### 9. DEFERRED TAXATION

	CAPEX £	TAX LOSSES £	TOTAL £
<b>2010</b>			
<b>South Africa</b>			
At 1 July 2009	(328,051)	328,051	–
Current timing differences	(588,274)	588,274	–
Exchange differences	(34,694)	34,694	–
At 30 June 2010	(951,019)	951,019	–
<b>UK</b>			
At 01 July 2009	–	–	–
Credit to income	–	–	–
Total at 30 June 2010	–	–	–

	CAPEX £	TAX LOSSES £	TOTAL £
<b>2009</b>			
<b>South Africa</b>			
At 1 July 2008	(581,498)	581,498	–
Current timing differences	253,447	–	253,447
Tax loss	–	(253,447)	(253,447)
At 30 June 2009	(328,051)	328,051	–
<b>UK</b>	–	–	–
Total at 30 June 2009	(328,051)	328,051	–

### 10. LOSS PER SHARE

#### FROM CONTINUING OPERATIONS:

The calculation of the basic and diluted loss per share is based on the following data:

	YEAR ENDED 30 JUNE 2010 £	YEAR ENDED 30 JUNE 2009 £
<b>Loss</b>		
Loss for the purposes of basic and diluted loss per share being attributable to equity holders of the parent	(3,893,228)	(1,699,468)
<b>Statutory number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	145,822,007	91,993,313
Effect of dilutive potential ordinary shares:		
Share warrants	–	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	145,822,007	91,993,313
Basic and diluted loss per share	2.67p	1.84p

The outstanding share warrants are anti-dilutive as the Group has made a loss during the current and prior year.

The deferred shares have no rights and therefore do not form part of the loss per share calculations.

**11.(a) PROPERTY, PLANT AND EQUIPMENT**

	LAND AND BUILDINGS £	OTHER ASSETS £	TOTAL £
<b>Cost or valuation</b>			
At 1 July 2008	158,643	4,845,349	5,003,992
Additions	–	350,581	350,581
Exchange difference	32,706	944,090	976,796
<b>At 30 June 2009</b>	<b>191,349</b>	<b>6,140,020</b>	<b>6,331,369</b>
Additions	–	2,813	2,813
Impairment of assets	–	(889,425)	(889,425)
Exchange difference	24,664	736,650	761,314
<b>At 30 June 2010</b>	<b>216,013</b>	<b>5,990,058</b>	<b>6,206,071</b>
<b>Accumulated depreciation</b>			
At 1 July 2008	10,202	560,401	570,603
Charge for the year	6,589	292,083	298,672
Exchange difference	735	32,501	33,236
<b>At 30 June 2009</b>	<b>17,526</b>	<b>884,985</b>	<b>902,511</b>
Charge for the year	7,807	1,227,878	1,235,685
Exchange difference	2,729	183,544	186,273
<b>At 30 June 2010</b>	<b>28,062</b>	<b>2,296,407</b>	<b>2,324,469</b>
<b>Net book value</b>			
At 30 June 2009	173,823	5,255,035	5,428,858
<b>At 30 June 2010</b>	<b>187,951</b>	<b>3,693,651</b>	<b>3,881,602</b>

Land and buildings consist of a farm, Elandslaagte no. 385, situated in the District of Barkly West, Province of the Northern Cape in the Republic of South Africa, measuring 272 ha with some farm buildings thereon.

The property is held subject to a Notarial Mineral Lease no. K52/2002RM in terms whereof the Republic of South Africa is the lessor of all precious stones found in, on and under the property and in terms whereof Elandslaagte Diamonds (Proprietary) Limited is the lessee of the sole and exclusive right to mine and recover precious stones in, on and under the property for a duration of 20 years commencing 3 May 2001, with a further two options to extend the lease for five years.

The IDC loan disclosed in Note 15(b) is secured by the moveable assets of the mine, excluding diamond stocks and a specific crusher, which is held as security for the creditor related to that crusher.

A crusher to the value £242,418 (2009: £348,196) is held as security for a trade creditor.

During the year certain mining assets were impaired by £889,425 to their net realisable value.

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 11.(b) INVESTMENTS

	£
As at 30 June 2008	119,296
– investment	27,443
– fair value revaluation	(3,800)
– exchange differences	29,528
As at 30 June 2009	172,467
– investment	–
– fair value revaluation	15,044
– exchange differences	22,242
As at 30 June 2010	209,753

This investment is held as security by the Department of Mineral Resources (“DMR”) for the rehabilitation provision disclosed in Note 16(b).

### 12. INVENTORY

	30 JUNE 2010 £	30 JUNE 2009 £
Diamond stocks	79,582	–
Stock consumables	53,384	63,332
	132,966	63,332

Diamond stock is pledged as security for the short-term loan from CIH as disclosed in note 15(a).

### 13. TRADE AND OTHER DEBTORS

	30 JUNE 2010 £	30 JUNE 2009 £
Guarantees and deposits	83,670	114,560
Other debtors	123,548	215,776
	207,218	330,336

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

A deposit is held by the DMR on estimated long term environmental obligations and other guarantees to Eskom for an amount of £49,003 (R565,000), (2009: £43,391, R565,000).

Included within other debtors is a VAT receivable of £46,193 (2009: £156,802).

### 14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand and balances in bank, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value and have an original maturity of three months or less. The South African entities are subject to exchange control restrictions.

### 15.(a) TRADE AND OTHER PAYABLES

	30 JUNE 2010 £	30 JUNE 2009 £
Trade creditors	1,516,292	1,702,791
Short-term portion of a long term loan	7,239,772	5,576,720
Short-term loan – CIH	957,118	92,527
Taxation	163,529	142,827
<b>Total</b>	<b>9,876,711</b>	<b>7,514,865</b>

The average credit period taken for trade purchases is 194 (2009: 433) days for the Group and 81 (2009: 236) for its subsidiaries.

Included within trade creditors is a long-standing balance of £680,000 that has been outstanding since May 2006.

The short-term loan from CIH are secured by means of a pledge over 100 ordinary shares of R1.00 each constituting 100% of the issued share capital of Elandslaagte Diamonds (Pty) Ltd, all raw and/or uncut diamonds mined on the property of the surety as well as unlimited surety by Cape Resources Plc. The loan bears interest at the South African prime lending rate (currently 10%) capitalised monthly in arrears on all drawn-down advances from the facility. The loan is repayable on the earlier of the expiry date, being 12 months from the date of signature (23 April 2010), or the date on which the loan becomes repayable pursuant to the commitment by Cape Resources for the acquisition of a substantial asset by Cape with a concomitant fundraising undertaking enabling the discharge of the loan, provided always that the Repayment Date shall not fall later than 12 months from the signature date unless the steps necessary have been implemented in respect of the proposed acquisition and funding by that date and the Repayment Date shall then coincide with the completion of the proposed acquisition and funding or within 24 months from the Signature Date whichever the earlier.

The Directors consider that the carrying amount of trade payables approximates their fair value.

**15.(b) LONG-TERM LIABILITIES**

Loan received by Golden Falls from IDC:

	£
<b>As at 30 June 2008</b>	<b>4,021,071</b>
Short term portion	(5,576,720)
Interest accrued	597,166
Exchange difference	958,483
<b>As at 30 June 2009</b>	<b>–</b>
As at 1 July 2009	5,576,720
Short term portion	(7,239,772)
Interest accrued	891,013
Exchange difference	772,039
<b>As at 30 June 2010</b>	<b>–</b>

The loan is secured by a notary bond over all the moveable assets of Golden Falls excluding diamond stocks and a crusher to the value of £242,418. The terms of the first loan (£5.7 million) state that the loan shall be repaid in 47 equal monthly instalments of £90,286 (R1,041,000) each and a final instalment of £93,062 (R1,073,000), the first of which was paid on 1 February 2008 and the remainder thereafter on the first day of each and every succeeding month until the loan has been repaid in full.

The terms of the second loan (£1.54 million) state that the loan shall be repaid in 30 equal monthly instalments of £86,730 (R1,000,000) each until fully repaid, the first of which was paid on 1 February 2008.

The IDC allowed Golden Falls a moratorium on repayments of capital and interest from 1 March to 30 June 2008. This moratorium has expired and Golden Falls is now in breach of the terms of the loan.

The IDC has confirmed they are aware of the situation and are working with the Directors to determine the best way forward. They have also confirmed that they will not take any legal action while negotiations with the directors are on-going.

The first loan bears interest at the South African prime rate (currently 10%; 2009: 10.5%) less 1%. The second loan bears interest at the South African prime rate (currently 10%; 2009: 10.5%).

**16.(a) LEAVE PAY PROVISIONS**

	CURRENT LIABILITIES LEAVE PAY £
At 1 July 2008	20,895
Utilised	(13,600)
Exchange differences	(2,038)
<b>At 30 June 2009</b>	<b>5,257</b>
Utilised	–
Exchange differences	678
Creation of additional provision	8,334
<b>At 30 June 2010</b>	<b>14,269</b>

The leave pay provision relates to vested leave pay to which employees become entitled upon leaving the employment of the Company. The provision arises as employees render a service that increases their entitlement to future compensated leave. The provision is utilised when employees who are entitled to leave pay, leave the employment of the Company or when the accrued leave due to an employee is utilised.

**16.(b) NON-CURRENT LIABILITIES REHABILITATION**

	NON-CURRENT LIABILITIES REHABILITATION £
At 1 July 2008	282,920
Utilised	–
Exchange differences	62,336
<b>At 30 June 2009</b>	<b>345,256</b>
Utilised	–
Exchange differences	44,535
Creation of additional provision	–
<b>At 30 June 2010</b>	<b>389,791</b>

Rehabilitation provision relates to the estimated liability arising from current mining activities and the Group's obligation to incur costs related to the rehabilitation of the mining site when mining activities cease.

**17. FINANCIAL INSTRUMENTS – GROUP****CREDIT RISK**

The Group's principal financial assets are bank balances and cash, trade and other debtors.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk.

**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; refer to Note 1 for further detail. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 15(a) and 15(b), cash and cash equivalents; financial assets carried at fair value and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

**GEARING RATIO**

The Board periodically reviews the capital structure of the Group. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 17. FINANCIAL INSTRUMENTS – GROUP (CONTINUED)

The gearing ratio at the year-end is as follows:

	30 JUNE 2010 £	30 JUNE 2009 £
Debt	8,196,890	5,576,720
Cash and cash equivalents	(124,220)	(22,907)
Net debt	8,072,670	5,553,813
Equity	(5,725,012)	(1,847,478)
<b>Net debt to equity ratio</b>	<b>1.41</b>	<b>3.01</b>

The debt is defined as long- and short-term borrowings, as detailed in note 15(a) and 15(b).

Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

#### SIGNIFICANT ACCOUNTING POLICIES

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis on which income and expenses are recognised, in respect of each class of asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

#### CATEGORIES OF FINANCIAL INSTRUMENTS

	CARRYING VALUE	
	30 JUNE 2010 £	30 JUNE 2009 £
<b>Financial assets</b>		
Fair value through profit and loss (FVTPL) Held for trading	209,753	172,467
Loans and receivables (including cash and cash equivalents)	331,438	353,243
<b>Financial liabilities</b>		
Payables at amortised cost	1,516,292	1,702,791
Short-term portion of long-term loan at amortised cost	7,239,772	5,576,720

#### FINANCIAL RISK MANAGEMENT

The Board monitors the financial risks relating to the operations of the Group. These risks include market risk (primarily currency and interest rate risk), and liquidity risk.

#### FOREIGN CURRENCY RISK MANAGEMENT

The Group is exposed to foreign exchange risk associated with fluctuations in the relative value of the South African Rand. These risks are mitigated to the extent considered necessary by the Board.

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

	ASSETS		LIABILITIES	
	30 JUNE 2010 £	30 JUNE 2009 £	30 JUNE 2010 £	30 JUNE 2009 £
Denominated				
in Rand	519,088	461,982	8,985,773	6,312,352

#### FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group is mainly exposed to the Rand. The following table details the Group's sensitivity to a 5% increase and decrease in the Sterling against the Rand. 5% 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 5% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where the Sterling strengthens 5% against the Rand. For a 5% weakening of the Sterling against the Rand, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	30 JUNE 2010	30 JUNE 2009
Loss	449,289	278,589
Other equity	–	–

Reasons for foreign currency impacts are shown above.

The Group's sensitivity to foreign currency has increased during the current period due to an increase in loans from foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender.

#### INTEREST RATE RISK MANAGEMENT

The Group is exposed to interest rate risk through the cash and cash equivalents and short-term financial assets and liabilities. The Group's exposure to interest rates is detailed in the interest rate sensitivity section of this note.

#### INTEREST RATE SENSITIVITY

The sensitivity analyses below have been determined based on the exposure to interest rates for interest bearing instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole year. A 1% increase or decrease in interest rates has been applied in this analysis.

If interest rates had been 1% higher/lower and all other variables were constant, the Group's loss for the year ended 30 June 2010 would increase by £55,767 (2008: £39,000) and equity would be reduced by the same amounts.

The Group's sensitivity to interest rates has increased during the current period mainly due to increase in long-term loans relative to the cash position in the Group.

#### LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for the liquidity risk management rests with the Board of Directors. The Board of Directors monitors the level of liquid assets available to the Company and the level of funding required to meet its short-medium and long-term requirements.

#### LIQUIDITY AND INTEREST RISK TABLES

All financial liabilities are due on demand and are disclosed in notes 15(a) and 15 (b).

#### COMMODITY PRICE RISK

Historically, commodity prices have displayed wide ranges and are affected by numerous factors over which the Group does not have any control. These include world production levels, international economic trends, currency exchange fluctuations, expectations for inflation, speculative activity, consumption patterns and global or regional political events.

#### FAIR VALUES

The carrying amounts of the following financial instruments approximate their fair values:

- > Cash at bank – deposits without specified maturity dates and bear interest at market-related rates.
- > Accounts receivable – subject to normal credit terms and reflected net of doubtful debt provision where appropriate.
- > Accounts payable – subject to normal credit terms and relatively short payment cycle.

#### 18. SHARE CAPITAL

30 JUNE  
2009  
£

Authorised	
800 million ordinary shares of £0.01 each	8,000,000
44,596,053 deferred shares at £0.09 each	4,013,645
Ordinary shares	
Issued and fully paid: On 1 July 2008 44,596,053 Ordinary shares of £0.10 each were converted to 44,596,053 deferred shares at £0.09 each and 44,596,053 Ordinary Shares of £0.01 each	4,459,605
Converted to deferred shares	
44,596,053 deferred shares of £0.09 each	(4,013,645)
Issued during the year	
100,000,000 Ordinary shares of £0.01 each	1,000,000
<b>Total Issued and fully paid at 30 June 2009</b>	<b>1,445,960</b>

#### Deferred shares

Issued and fully paid	
44,596,053 deferred shares of £0.09 each	4,013,645
<b>Total Issued and fully paid at 30 June 2009</b>	<b>5,459,605</b>

30 JUNE  
2010  
£

Authorised	
800 million ordinary shares of £0.01 each	8,000,000
44,596,053 deferred shares at £0.09 each	4,013,645
Ordinary shares	
Issued and fully paid at 1 July 2009	
144,596,053	1,445,960
Issued during the year	
8,574,857 Ordinary shares of £0.01 each	85,749
<b>Total Issued and fully paid at 30 June 2010</b>	<b>1,531,709</b>

#### Deferred shares

Issued and fully paid	
44,596,053 deferred shares of £0.09 each	4,013,645
<b>Total issued and fully paid at 30 June 2010</b>	<b>5,545,354</b>

The deferred shares carry no specific rights.

#### MOVEMENTS IN YEAR

On 29 April 2010 6,857,144 ordinary shares of £0.01 each were issued to settle certain Directors fees (refer note 23).

On 17 June 2010, 1,717,713 ordinary shares of £0.01 each were issued to settle creditors with outstanding balances of £60,120.

	NO. OF SHARES NO	NOMINAL VALUE £
At 30 June 2009	144,596,053	5,459,605
29 April 2010	6,857,144	68,571
17 June 2010	1,717,713	17,178
<b>At 30 June 2010</b>	<b>153,170,910</b>	<b>5,545,354</b>

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 19. NOTES TO THE CASH FLOW STATEMENT

	30 JUNE 2010 £	30 JUNE 2009 £
Operating loss from continuing operations	(3,005,526)	(1,406,528)
Adjustments for:		
Depreciation and impairment of property, plant and equipment	2,125,110	298,672
Bad debt write off	–	12,787
Decrease/(increase) in provisions	8,334	(15,638)
Fair value adjustment on investments	(15,056)	–
Share-based payments	240,000	–
Net foreign exchange gains	(59,820)	(109,720)
<b>Operating cash flows before movements in working capital</b>	<b>(706,958)</b>	<b>(1,220,427)</b>
Increase in inventory	(61,471)	(8,265)
Decrease/(increase) in receivables	159,158	(3,865)
(Decrease)/increase in payables	(143,914)	654,820
<b>Net cash outflow from operating activities</b>	<b>(753,185)</b>	<b>(577,737)</b>

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid-investments with a maturity of three months or less.

### 20. CONTINGENCIES AND COMMITMENTS

#### (a) CONTINGENCIES

The Company has contingent liabilities regarding transactions related to machinery of £169,812 (2009: £150,379).

#### (b) SARB PENALTY

In 2009 the Company has become aware of a contravention of the South African Reserve Bank rules as shares in the Company are now held by Keysha Investments 194 (Pty) Limited a South African controlled company and are in the process of discussing the issue with the South African Reserve Bank. The outcome of the discussion is uncertain and, whilst management believe this highly unlikely, the Company might be subject to penalties in this regard to a maximum amount of £1 million.

#### (c) WAIVER OF DIRECTORS' FEES

A draft agreement was reached with the directors whereby the directors waived their fees for the period 1 July 2008 to 30 June 2010. The draft agreement provides that should the Group successfully raise equity in the future the directors will be given ordinary shares in the company to compensate

for fees waived. The total accumulated directors' fees waived at 30 June 2010 was £520,000. A separate agreement has been reached with certain directors whereby they received shares to the value of £240,000. This is disclosed in note 23.

### 21. SHARE-BASED PAYMENTS

#### SHARES ISSUED

During the year creditors with outstanding balances of £60,121 were converted to ordinary shares resulting in the issue of 1,717,713 ordinary shares of £0.01 each at a value of £0.035 each.

During the year directors' fees of £240,000 were paid through the issue of 6,857,144 ordinary shares of £0.01 each at a value of £0.035 each.

#### SHARE WARRANTS

The Company has a share warrant scheme for some employees of the Group. The expense recognised during the year for share-based payments in respect of share warrants granted is £nil (2009: £nil) as no new warrants were granted during the current or prior year.

For the purposes of the IFRS 2 charge the warrants were valued using the Binominal Option Pricing Model, using the following assumptions:

Time to maturity – 3 years  
Risk free rate – 4.11% to 4.55%  
Dividend yield – nil  
Volatility – 50%  
Weighted average share price 87p  
Weighted average exercise price 78p

The assumptions above are consistent with the assumptions in the previous year.

Warrants 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 varies. If the warrants remain unexercised after a period of five years from the date of grant the warrants expire. Warrants are forfeited if the employee leaves the Group.

No warrants were exercised during the year.

Expected volatility was determined by calculations the historical volatility of the Group's share price over the previous one year. The expected life used in the model had been adjusted, based on management's best estimate for the effects of non-transferability exercise restrictions and behavioural considerations.

**21. SHARE-BASED PAYMENTS (CONTINUED)**

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

	NUMBER OF SHARE WARRANTS NO.	WEIGHTED AVERAGE EXERCISE PRICE £
Outstanding and exercisable at 30 June 2009	3,929,150	2,984,150
Warrants lapsed during the year	(2,969,150)	(2,024,150)
Outstanding and exercisable at 30 June 2010	960,000	960,000

**EQUITY-SETTLED SHARE WARRANT SCHEME**

NAME	EXERCISE PRICE		30 JUNE 2009 OR DATE OF RESIGNATION NUMBER	LAPSED NUMBER	30 JUNE 2010 OR DATE OF RESIGNATION NUMBER
BR Corporate Finance Ltd	10p	Note B	40,000	(40,000)	–
BR Corporate Finance Ltd	100p	Note C	20,000	(20,000)	–
Other staff and consultants	10p	Note A	990,000	(990,000)	–
Staff and consultants	100p	Note D	48,180	(48,180)	–
Merika J Madungandaba	100p	Note E	75,000		75,000
Dr Anna Mokgokong	100p	Note E	75,000		75,000
Oren Lubow	100p	Notes C and G	113,267	(113,267)	
Others	100p	Note E	75,000		75,000
Others	100p	Note F	735,000		735,000
Other shareholders	100p	Note C	1,757,703	(1,757,703)	–
			<b>3,929,150</b>	<b>(2,969,150)</b>	<b>960,000</b>
Weighted average exercise price (pence)			76.41	68.76	100.00

The weighted average contractual life of warrants outstanding at 30 June 2010 was 1 year.

**NOTE:**

- Note A – Exercisable at any time before 7 February 2010  
 Note B – Exercisable at any time before 1 September 2009  
 Note C – Exercisable at any time before 30 March 2010  
 Note D – These warrants have been reclassified and are now disclosed under “other shareholders”  
 Subsequently, warrants held within “other shareholders” have lapsed  
 Note E – Exercisable at any time between 21 October 2007 and 21 October 2012  
 Note F – Exercisable at any time before 21 April 2011  
 Note G – Oren Lubow’s warrants were held by Fitel Nominees Ltd

On 27 July 2007, 3.6 million warrants were approved for issue to directors and staff for which contracts have not been issued. During the period to date 1,080,000 of these warrants were cancelled after certain employees left the Group.

**22. EVENTS AFTER THE BALANCE SHEET DATE**

A new order mining licence application has been submitted in order to replace the existing old order mining licence and Golden Falls is awaiting approval from DMR.

# NOTES TO THE FINANCIAL STATEMENTS CONT'D

## YEAR ENDED 30 JUNE 2010

### 23. RELATED PARTY TRANSACTIONS

RELATED PARTY	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT OF TRANSACTION 30 JUNE 2010 £	AMOUNT PAYABLE 30 JUNE 2010 £	AMOUNT OF TRANSACTION 30 JUNE 2009 £	AMOUNT PAYABLE 30 JUNE 2009 £
Community Investment Holdings(Pty)Ltd	MJ Madungandaba and ATM Mokgokong directors of Community Investment Holdings (Pty) Limited and Cape Resources Plc	Loan & advances	864,591	957,118	92,527	92,527

NAME	SHARE-BASED PAYMENT £	CONSULTANCY FEE £	DIRECTORS' FEES £	SALARY £	TOTAL £
S Sasson	120,000	–	–	–	120,000
O J Lubow	120,000	–	–	–	120,000
<b>Total</b>	<b>240,000</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>240,000</b>

### DIRECTORS' TRANSACTIONS

In 2010 certain directors received shares in the Company. 6,857,144 Ordinary Shares were issued to a total value of £240,000. No direct transactions with directors took effect in 2009.

Key management	30 JUNE 2010 £	30 JUNE 2009 £
Salary	–	–
Share-based payment	240,000	–
<b>Total</b>	<b>240,000</b>	<b>–</b>

## 24. ADOPTION OF IFRS 8 OPERATING SEGMENTS

IFRS 8 requires operating segments to be identified on the basis of components used in internal reports of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the category of mining which includes diamond sales and cost of producing diamonds. The Group's reportable segments under IFRS 8 are therefore as follows:

Mining: Diamond mining

There are no other operations in the group.

## 25. STAFF COSTS – COMPANY

	YEAR ENDED 30 JUNE 2010 NO.	YEAR ENDED 30 JUNE 2009 NO.
The average monthly number of employees (excluding Executive Directors) was:	–	–
Number of Directors	4	4
	£	£
Emoluments for qualifying services:		
Highest paid Director (payable by subsidiary)	120,000	–
Staff costs including Directors:		
Wages and salaries	59,880	79,480
Share-based payments	240,000	–

£59,880 (2009: £79,480) was paid to contractors who work for the Company as though they are employees.

No retirement benefits are accruing to Directors under pension schemes, as a result there is no amount payable in respect of retirement benefits to either Directors or employees under any pension scheme in either period.

## 26. LOSS FROM OPERATIONS – COMPANY

Loss from operations has been arrived at after charging/(crediting):

	30 JUNE 2010 £	30 JUNE 2009 £
Impairment of investment in subsidiary	–	1,209,351
Net foreign exchange losses/(gains)	14,338	(109,720)

Auditors' remuneration for the Company and the Group is disclosed in Note 5.

## 27. INVESTMENT INCOME – COMPANY

	30 JUNE 2010 £	30 JUNE 2009 £
Interest on bank deposits	4	1,032
<b>Total investment income</b>	<b>4</b>	<b>1,032</b>

## 28. FINANCIAL INSTRUMENTS – COMPANY

### CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Company will be able to continue as going concerns while maximising the return to stakeholders. The capital structure of the Company consists of cash and cash equivalents; financial assets carried at fair value and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Company Statement of changes in Equity.

The Company is equity financed.

### CATEGORIES OF FINANCIAL INSTRUMENTS

	30 JUNE 2010 £	30 JUNE 2009 £
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	22,184	63,882
<b>Financial liabilities</b>		
Amortised cost	1,229,570	1,204,849

At the reporting date there are no loans and receivables designated at FVTPL. The carrying amount reflected above represents the Company's maximum exposure to credit risk for such loans and receivables.

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2010

#### FINANCIAL RISK MANAGEMENT OBJECTIVES

The Board of Directors monitor the financial risks relating to the operations of the Company. These risks include market risk (primarily currency and interest rate risk), credit risk and liquidity risk.

#### FOREIGN CURRENCY SENSITIVITY ANALYSIS

The foreign currency exposure and sensitivity is materially the same for the Group and Company. Refer to Note 17 for details in respect to foreign currency sensitivity.

#### INTEREST RATE RISK MANAGEMENT

The Company is exposed to interest rate risk through the cash and cash equivalents and short-term financial assets. The Company's exposure to interest rates is detailed in the interest rate sensitivity section of this note.

#### INTEREST RATE SENSITIVITY

The sensitivity analysis below has been determined based on the exposure to interest rates for the average balance of interest-bearing financial asset investments held during the year. A 1% increase or decrease in interest rates has been applied in this analysis.

If interest rates had been 1% higher and all other variables were constant, the Company's loss for the year ended 30 June 2010 would decrease by £nil (2009: £Nil).

#### LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for the liquidity risk management rests with the Board of Directors. The Board of Directors monitors the level of liquid assets available to the Company and the level of funding required to meet its short-medium and long-term requirements. Refer to Note 1 for details in relation to material uncertainties in respect of the Company and the Group's ability to meet its future obligations.

#### 29. PENSIONS

There are no pension schemes in place in the Group.

**30(a). INVESTMENT IN SUBSIDIARIES – COMPANY**

	SHARES £	LOANS £	TOTAL £
At 1 July 2008	199,852	–	199,852
Increase in loans during the year	–	899,779	899,779
Exchange difference	–	109,720	109,720
Impairment of investment	(199,852)	(1,009,499)	(1,209,351)
<b>30 June 2009</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>30 June 2010</b>	<b>–</b>	<b>–</b>	<b>–</b>

Investment in subsidiaries comprises the purchase of the entire share capital of DMI which holds 25.4% interest in Golden Falls, 49% of the issued shares of Golden Falls, which in turn owns 100% of the ordinary share capital of Elandslaagte comprising the Leicester, Russell and Balmoral mines. The investment in Elandslaagte is pledged as security for the short-term loan from CIH as disclosed in note 15(a).

Due to considerable impairment of the underlying mining assets of the subsidiaries, the Company investment and loans to the subsidiaries were impaired.

At 30 June 2010, investments in the following subsidiaries were held:

	ACTIVITY	COUNTRY OF INCORPORATION AND OPERATION	ORDINARY SHARES HELD COMPANY	ORDINARY SHARES HELD GROUP
Dominion Mining Investments (Proprietary) Ltd	Mining	South Africa	100%	100%
Golden Falls Mining (Proprietary) Limited	Mining	South Africa	49%	74.4%
Elandslaagte Diamonds (Proprietary) Ltd	Mining	South Africa	–	74.4%

**30(b). RELATED PARTY TRANSACTIONS – COMPANY**

RELATED PARTY	NATURE OF RELATIONSHIP	TYPE OF TRANSACTION	AMOUNT OF TRANSACTION 30 JUNE 2010 £	BALANCE AT 30 JUNE 2010 £	AMOUNT OF TRANSACTION 30 JUNE 2009 £	BALANCE AT 30 JUNE 2009 £
<b>2010</b>						
Dominion Mining Investments	Subsidiary	Loan	112,370	112,370	–	–
<b>2009</b>						
Dominion Mining Investments	Subsidiary	Cash transfers paid	–	–	899,779	–
		Exchange difference	–	–	109,720	–
		Investment	–	–	–	1,209,351
		Impairment of investment and loans	–	–	(1,009,499)	(1,209,351)

## NOTES TO THE FINANCIAL STATEMENTS CONT'D

### YEAR ENDED 30 JUNE 2010

#### 31. TRADE AND OTHER DEBTORS – COMPANY

The carrying amount of these assets approximates their fair value.

	30 JUNE 2010 £	30 JUNE 2009 £
Other debtors	22,125	50,732

The Directors consider that the carrying amount of other receivables approximates their fair value.

#### 32. TRADE AND OTHER PAYABLES – COMPANY

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 138 (2009: 433) days.

The Directors consider that the carrying amount of trade payables approximates their fair value.

	30 JUNE 2010 £	30 JUNE 2009 £
Trade payables	967,965	1,204,849
Other payables and accruals	580	–
Current account – subsidiary	112,370	–
Advance – Community Investment Holdings (Pty) Ltd	148,655	–
<b>Total</b>	<b>1,229,570</b>	<b>1,204,849</b>

#### 33. NOTES TO THE CASH FLOW STATEMENT – COMPANY

	30 JUNE 2010 £	30 JUNE 2009 £
Operating loss from continuing operations	(366,544)	(1,437,328)
Impairment of subsidiary investment	–	1,209,351
Share based payments	240,000	–
Net foreign exchange losses/(gains)	14,338	(109,720)
Operating cash flows before movements in working capital	(112,206)	(337,697)
Decrease in receivables	28,608	41,588
Increase in payables	70,503	275,770
<b>Net cash outflow from operating activities</b>	<b>(13,095)</b>	<b>(20,339)</b>

Cash and cash equivalents, which are presented as a single class of assets on the face of the balance sheet, comprise cash at bank and other short-term highly-liquid investments with a maturity of three months or less.



