

Cape Diamonds Plc

Termination of merger discussions and toll treatment contract

15 August 2008

The Company announces that discussions relating to the proposed acquisition by Cape Diamonds of the entire issued share capital of KMG Diamond Resources (Pty) Limited ("KMG SA"), the operating subsidiary of KMG Diamond Resources Plc ("KMG"), have terminated.

The Company also announces that the toll treatment agreement announced on 23 May 2008, between the Company and KMG's subsidiary, KMG Mining Services (Pty) Limited ("KMG Mining Services"), has also been terminated, with immediate effect. This agreement was to toll process the tailings deposit at the Frank Smith Mine operated by KMG SA, on a cost plus basis using Cape Diamond's DMS plant at the Elandslaagte Mine.

In the interim, the Company has secured £1 million from Keysha Investments 194 (Pty) Limited (the "Investor/s") by way of a convertible loan (the "Loan"), the conversion of which is subject to shareholder approval. The proceeds of the Loan will be used to recapitalise Golden Falls Mining (Pty) Ltd and for general working capital purposes.

As part of this Loan the shares owned by Cape Diamonds Plc in Golden Falls Mining (Pty) Limited, directly and via its wholly owned subsidiary, Dominion Mining Investments (Pty) Limited (totalling 74.4%) have been pledged as security to the Investor/s for the Loan, pending the approval of shareholders, which pledge will fall away and be of no further force and effect upon the conversion of the loan in accordance with a number of detailed provisions.

In the event of such shareholder approval not being obtained, and Cape Diamonds Plc not repaying the loan within the pre-determined period, the Investor/s would be entitled to acquire shares in Golden Falls Mining (Pty) Limited based on the agreed formula which would enable them to convert the loan/s into the pro rata holding of 74.9% of the shares in Golden Falls Mining (Pty) Limited which were subject to the pledge.

Further details will be announced to shareholders and will be contained within a circular, detailing the various resolutions to be proposed to shareholders and the reasons for their proposal, which will be posted to shareholders in due course.

The Board are reviewing the strategy of the Company going forward and will report to shareholders shortly.

The suspension will be lifted and restoration of trading in the Company's ordinary shares on AIM will occur on Monday 18<sup>th</sup> August at 7.30am.

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