

2009

ANNUAL REPORT & ACCOUNTS





Kopane is a diamond producer, developer and explorer with core projects at Likhobong in Lesotho, Southern Africa. Over 350,000 carats of diamonds have been produced and recovered. An independently produced new resource statement was announced in September 2009 which showed 90 million tonnes of kimberlite with an in-situ value of \$2.6 billion, excluding the impact of large and bonanza stones. This is a much larger resource than previously shown and will support production of over 1 million carats per annum.

2009

HIGHLIGHTS

Improvement in grade confidence, based on **141%** increase in indicated resource to 38.6 million tonnes, potentially increases the depth of a future open pit to 180 metres.

Main Pipe total resource of **90.03 million** tonnes, an increase of **19.1%** over the interim resource statement issued in November 2008.

Gross diamond resource of **29.7 million** carats (Kopane attributable 22.3 million) contained in the Main Pipe to an average depth of 510 metres, with an estimated in situ value of **\$2.6 billion** based on September 2008 bulk sample diamond values.

Large diameter reverse circulation drilling results support an average grade of **33 cpht** to at least 510 metres average depth.

Memorandum of Understanding signed for funding power line to Lihobong.

Sales of **85,108 carats** valued at **\$3.4 million**.

Funding arranged in calendar 2009 of **£5.65 million**.



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COMPANY INFORMATION //

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Andrew Campbell Birnie (Technical Director)
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CHAIRMAN'S LETTER TO SHAREHOLDERS ///

Dear Shareholders

The year to 30 June 2009 has proved to be an eventful one for Kopane as well as the diamond mining industry. The gloomy economic outlook persisting at the time of the Chairman's letter to you last year resulted in a severe fall in prices available for rough diamonds from the third quarter of calendar 2008 and this continued into the first quarter of 2009, although since then prices have improved, according to market indications by some 30% to 40%. No diamond producer has been immune from these macro-economic impacts and Kopane, like many other producers, elected to suspend production. Our Liqhobong mine was placed on a care and maintenance basis in early December 2008 to preserve cash resources.

Nevertheless, I am pleased to say that Kopane has had a very successful year in progressing its development of the Liqhobong project including release of a final resource statement in respect of the Main Pipe at Liqhobong on 10 September 2009. This has added substantial value to its diamond resource by considerably enhancing the mining potential of the Pipe to 180 metres below surface and classifying a significant tonnage in the indicated category. This followed publication in November 2008 of an Interim Resource which substantially increased the indicative value of the Main Pipe over the 2007 pre-feasibility study estimate.

A total of £5.65 million funding was arranged in calendar 2009 to date through share placements and exercises of warrants and share options, which has put the Company on a strong footing to enable it to undertake its work programme in the coming year. Of this amount, £3.15 million was raised through an Equity Swap Agreement so that the Company will retain much of the economic interest in the shares issued whereby funds are received monthly over 24 months dependant on the Company's share price compared to a benchmark price of 18.67p per share. The Equity Swap Agreement will allow the Company to secure much of the potential upside arising from near term news flows.

The following is a summary of the Company's principal operational and financial highlights of the past year:-

\\ The total Main Pipe indicative value is \$2.6 billion, with a total resource tonnage of 90.03 million tonnes.

\\ Final resource statement published on 10 September 2009, prepared by ACA Howe International Limited ("Howe") places 38.6 million tonnes (43%) of the resource in the "indicated" category.

\\ The above final resource statement followed publication of an interim resource statement on 17 November 2008 by Howe under strict QA/QC protocols to a DFS standard, which gave a total resource tonnage of 76 million tonnes, up 79 % on the Pre-Feasibility Study ("PFS") statement published in 2007 of 42 million tonnes.

\\ The gross diamond resource of 29.7 million carats provides an indicative overall Main Pipe value of \$2.6 billion when applying the value generated by the bulk sample extracted in July and August 2008, of \$86 per carat. This valuation was obtained in September 2008 shortly after the commencement of a decline in rough diamond prices.

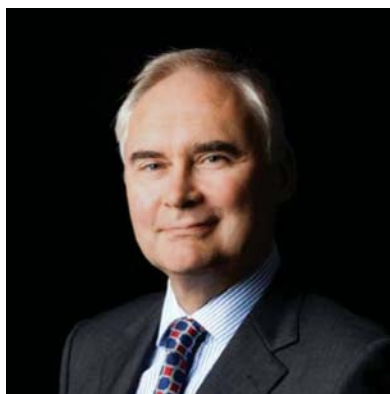
Francesco Scolaro
Chairman



\\ In August 2009, a Memorandum of Understanding was agreed with respect to funding a power line to connect the Liqhobong mine to grid electricity. This represents a significant step forward in constructing a 132 KVA power line to the mine, a critical component of the Main Pipe project.

\\ Total Liqhobong diamond production, which included production from the Satellite Pipe as well as production and bulk sampling from the Main Pipe, in the year to June 2009, totalled 56,500 carats, compared with 152,013 carats in the previous year. This fall in production is due to the current year representing only 5 months of production until suspension of production in early December 2008 and the processing of the Definitive Feasibility Study bulk samples. In addition we saw an improvement in monthly production due to a substantial improvement in the operational efficiencies albeit at a lower grade as a greater proportion of ore was sourced from the lower grade Main Pipe.

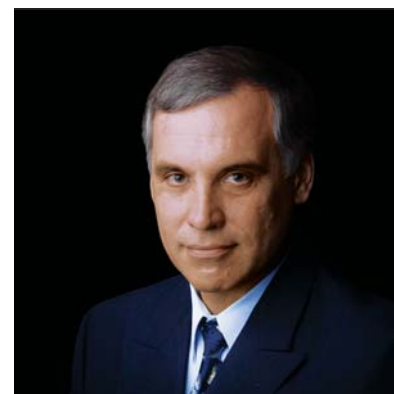
James Cable
Finance Director



\\ Diamond sales for 5 months until suspension of production in early December 2008 of 85,108 carats realised \$3.4 million, which included the sale of 3 premium yellow diamonds including a 13.32 carat vivid yellow which was recovered from K5. This stone sold in July 2008 for \$466,679 equivalent to \$35,136 per carat, which is the highest price per carat achieved so far. This compares to total sales in the previous financial year of 148,824 carats with gross proceeds of \$6.9 million.

\\ 150,600 dry tonnes of kimberlite were mined and processed in the 5 months to early December 2009, compared to 309,480 tonnes in the previous year, representing an increase in the average monthly production rate of 15% over the previous year. The average cost per tonne mined and processed, in Sterling terms, at £11.8 per tonne was similar to £11.1 per tonne incurred in the previous year.

Andrew Birnie
Technical Director



\\ 50 million new ordinary shares were placed with Obtala Resources Plc in March 2009 which raised £1.75 million and a further 27.9 million new ordinary shares were placed in November 2009 with institutional and private investors at 14p per share which raised a further £3.9 million before expenses. Of this amount, £3.15 million is payable over 24 months dependant on the Company's share price compared to a benchmark price of 18.67p per share.





View from Liqhobong camp to Satellite Plant and Main pipe

The Company's assets in Lesotho are owned and managed by its operating subsidiary Liqhobong Mining Development Company ("LMDC"). KDD owns 75% of LMDC with the balance of ownership held by the Government of Lesotho ("GoL").

Once again, I would like to thank the Ministry of Natural Resources for the considerable support and cooperation we have received, particularly in these difficult market conditions. Our partner was fully supportive of the decision to suspend production in early December 2008 due to falling diamond prices. In return, LMDC endeavours to operate the Liqhobong assets with the highest level of responsibility due to all its stakeholders. The Company recovered a total of 33,921 tonnes of bulk samples

from each of the four facies of the Main Pipe in July and August 2008, which had been treated by the Satellite Plant. These bulk samples yielded 12,514 carats of rough diamonds, valued independently by diamantiers at \$86/ct in September 2008, equivalent to a total sales value of some \$1 million and are held in the Company's inventory. The Company believes that it is in its best interests to retain these diamonds in its inventory for the foreseeable future, at least until diamond prices recover. The diamonds were recovered under strict QA/QC conditions and help demonstrate the in-situ value of the Main Pipe kimberlite. The retention of these diamonds, to allow re-assessment to support the eventual funding of the Main Pipe Project, will be reviewed as appropriate.

Work on the DFS in respect of the processing of some 1,800 tonnes of mini bulk samples, obtained from the Large Diameter Drilling ("LDD") programme, through the Company's onsite custom built 5 tonnes per hour Dense Media Separation plant was completed.

Subsequent analysis of the diamond recovery results from these LDD samples allowed the Company to demonstrate grade data at depth for each of the four facies and enabled more of the resource to be classified into the higher definition indicated category. The final resource statement was announced on 10 September 2009. Otherwise, the remaining DFS activities involve primarily completion of plant and tailings disposal design, infrastructure requirements and completion of ESIA work.

Other significant DFS work completed in the year under review has been:

\\ A programme of narrow (HQ/NQ) diameter core drilling, comprising 4 holes with a total depth of 1,705 metres plus a further 5 geotechnical holes with a total depth of 1,247 metres. This programme permitted a recalculation of the dimensions of the Main Pipe, resulting in a much larger resource tonnage of 75.6 million tonnes, a 79% increase on the 42 million tonnes resource identified in the PFS, as disclosed to shareholders on 17 November 2008.

\\ A LDD programme utilising a Prakla RB-40 RC drill rig, comprising a 25 hole programme totalling 4,415 metres of drilling and recovering some 1,800 tonnes of mini bulk samples. This provided depth continuity data on grade for each of the facies, enabling us to report a substantial increase in the indicated category of the resource in the Final Resource Statement issued on 10 September 2009. In comparison to the previously released Interim Resource Statement, we now find we have a 19.1% larger resource, with a grade of 33 cpht.

The Company announced on 17 November 2008 a substantially increased interim resource statement for the Main Pipe which, on the modelled diamond valuation, showed an indicative value of the in-situ diamond resource of \$2.54 billion, consisting of 76 million tonnes of kimberlite at an average grade of 39.1 carats per hundred tonnes at a run of mine value of \$86 per carat. This is a 213 per cent. increase in the value of the resource against that published in the Company's Pre-Feasibility Study in July 2007.

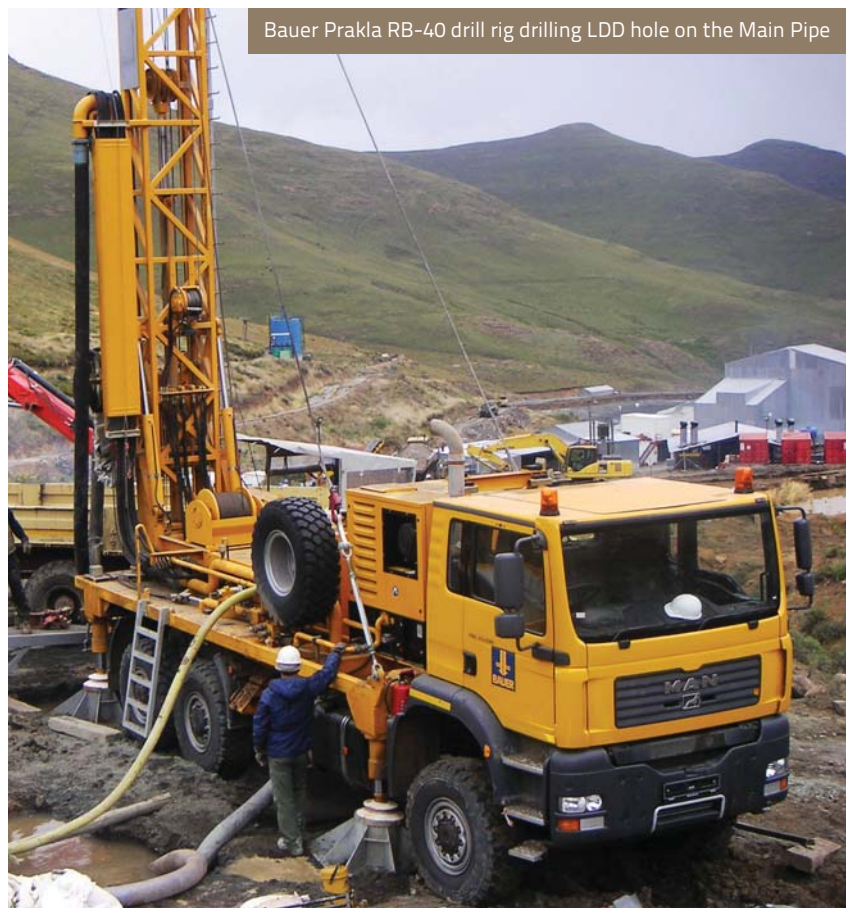
The Company believes that there is significant upside potential in the resource value from the impact of the value of large gem and bonanza stones.

The DFS was scheduled to be completed in mid 2009 but there have been delays in its completion, not least as a result of the substantial increase in the resource which necessitated a rethink of the project's physical and commercial parameters.

A primary driving force in completing the DFS, which is estimated to cost a further £1.2 million, has been to provide sufficient information to enable the Company to access debt funding for a substantial part of the capital cost of constructing new Main Pipe Plant. However, the availability of debt funding in financial markets at present and for the near term is likely to be

severely restricted. Whilst the Company has had some preliminary discussions with lenders and will pursue this avenue, I believe we should be cautious about relying on project debt finance under present economic circumstances.

The Company has deferred incurring expenditure on certain elements of the DFS in favour of proposing to incur expenditure on other items which will have a more immediate revenue generation potential. These include reviewing the re-commencement of diamond production at the Satellite Plant at Lihobong alongside investing in a significant expansion of the existing Satellite Plant, which currently has a capacity of approximately 450,000 tonnes per annum, in order to take advantage of a sustained increase in diamond prices.



Bauer Prakla RB-40 drill rig drilling LDD hole on the Main Pipe

This review will assess the feasibility of operating the Satellite Plant with diesel generated power ahead of connection to the grid electricity supply planned in the first half of 2011. The Company will also review the most economical ways of expanding production to potentially 1.4 million carats per annum with the aim of limiting Shareholders' equity dilution as much as possible. This review will encompass trade off studies to assess the timing and impact of further expansion of the Satellite Plant as well as the possible gradual construction of the new Main Pipe plant and funding options for the Main Pipe Project.

The Company announced on 5 October 2009 that, following discussions regarding potential investment in the Main Pipe Project, an exclusivity agreement, valid for a period of 60 days, had been signed with an established mining company to allow it to review the project in more detail.

The mining company is able to offer the technical, operational and financial capability to take the Lihobong Main Pipe to full scale production. The Directors believe that investment by a mining company with these capabilities could provide an expeditious route to realising full value for the Company without incurring significant shareholder dilution. Shareholders should note that these discussions may or may not lead to an agreement.

The Company's funds provide it with flexibility to invest in the facilities at Lihobong as well as to progress certain key parts of the DFS, which it believes to be in the shareholders' best interests.

The successful development of the Lihobong Main Pipe will be totally dependent upon the provision of grid electrical power from the Lesotho electricity grid. I am pleased to report that a Memorandum of Understanding between the Company's

subsidiary, Lihobong Mining Development Company, Lesotho Electricity Company, the Government of the Kingdom of Lesotho and Standard Lesotho Bank, in respect of funding of the construction of an electrical power line to the Company's mine at Lihobong, was signed and announced on 17 August 2009. The MOU contemplates that funds will be lent by the bank to the LEC to fund the construction of the power line from the LEC's sub-station at Ha Lejone, which is approximately 30 kilometres from Lihobong. In addition, the LEC and the Government of the Kingdom of Lesotho will contribute funds towards the cost of the project and the Government of the Kingdom of Lesotho has agreed to provide a sovereign guarantee to the bank in respect of the loan funding. LMDC will finance the servicing of the loan and its repayment on terms which have yet to be agreed.

The cost of the powerline project has been estimated by external consulting engineers at R131 million and Kopane's share is expected to amount to R90 million, although this cost is being re-assessed in the light of the current environment. The plan is that construction will commence in early 2010, which should allow grid electricity to be connected to the mine site in the first half of 2011.

The cost of grid electricity represents a substantial saving over diesel generated power. It is estimated that, based on production levels before suspension of production, diesel fuel was costing approximately \$6 per tonne, compared to a likely grid electricity tariff cost of less than \$1 per tonne. Annual cash outgoings to LMDC of paying for grid power plus the estimated



Bauer support crew ready to add another drill rod



Drilling blast holes for DFS K6 bulk sample

cost of repaying capital and interest on the loans (to be negotiated) will be less than paying the alternative cost of diesel fuel.

The engineering specifications of the power line, together with environmental impact assessment studies, have been completed in readiness for an immediate start to the construction once funding is in place. It is planned that the loan documentation will be finalised between the parties to allow construction to commence early in 2010, which as noted above should allow grid electricity to be connected to the mine site in the first half of 2011.

As noted above, the Company is not currently producing rough diamonds, having suspended production from its Satellite Plant operations at the beginning of December 2008 due to the sharp fall in prices available for rough diamonds as a result of the world economic situation. Prices fell by some 30-50% from October 2008 until the first quarter of calendar 2009; since then market indications are that prices have improved somewhat but not, as yet, to previously prevailing levels. However, the Company remains confident that the medium and long term outlook

for rough diamond prices is likely to be robust in the face of projected supply shortages.

In addition to placing the operation at Liqhobong on to a care and maintenance footing, the Company has taken other measures to conserve cash, including a reduction in corporate overheads.

Production at Liqhobong in the 5 months of the financial year prior to suspension of production had been at an improved rate over the first part of calendar 2008. Following the completion of the bulk sampling programme in August 2008, production attained record levels. In the period from September 2008 until 1 December 2008 the plant, on average, attained its target capacity of 30,120 tonnes per month, producing 56,500 carats from predominantly Main Pipe material. In the 5 month period 150,600 dry tonnes of kimberlite were processed, compared to 309,480 dry tonnes for the previous financial year, an increase in the monthly production rate of over 15%.

Since production commenced in the second half of 2005 until early December 2008, the Company exported 352,088 carats of rough diamonds, of which

339,367 carats have been sold for \$17 million at an average price of \$50.07 per carat. The Company is retaining in inventory 12,514 carats of rough diamonds, including boart, which were recovered in July and August 2008 from the bulk sample programme. These bulk sample stones were valued at \$86 per carat in September 2008.

In the financial year to 30 June 2009, production and sales were in respect of a 5 month period only and therefore were substantially less than the previous year, 43% in terms of carats sold (85,108 versus 148,824) and 51% in terms of revenue (US\$3.4 million versus US\$6.9 million). Although average sales prices are similar in comparing the two periods, this is the result of a number of compensating factors. A greater number of boart stones were sold in the 5 month period than the previous 12 month period and the substantially higher sales revenues achieved in the first 2 sales in the 5 month period (due to the inclusion of three high value premium yellow stones, one of which, a 13.32 carat vivid yellow, sold for \$35,136 per carat in July 2008), were offset by the impact of substantially lower prices achieved for the remaining 3 sales held between October 2008 and January 2009.

Diamond valuer assessing parcel prior to export



The average price per carat achieved depends additionally on the production blend of kimberlite from the higher grade but lower value Satellite Pipe and the lower grade but higher value Main Pipe and in the 5 month period there was a significantly greater proportion of Main Pipe stones sold.

Sales were conducted under sealed tender in Antwerp on LMDC's behalf by BHP Billiton under an agreement which has since terminated. Although LMDC is not presently marketing diamonds due to the suspension of production, it is well advanced in selecting a new sales agent and arrangements will be put in place in advance of resumption in sales. It is intended that new marketing arrangements will enable LMDC to participate in the down-stream value added by retaining some level of ownership

of its premium stones through cutting, polishing and jewellery manufacture.

The market for rough diamonds has been in turmoil over the last 12 months and as shareholders will know, producers have reacted quickly to this and there has been a reduction in the supply of diamonds offered for sale. Many of our buyers are Indian cutters and polishers and the restricted credit available in the financial markets to them and others has had a material effect on demand. There is evidence of price recovery in the current calendar year after the dramatic falls in the last part of 2008 but it is impossible to gauge how long market weakness will persist. We are nevertheless optimistic that prices will recover due to industry fundamentals in the medium and long term which show a material supply shortage.

Your board is monitoring this situation very closely to determine the best time to resume production at Liqhobong. As I mentioned earlier, we are also reviewing the feasibility of investing in a major expansion of the existing Satellite Plant. This is being considered in the light of the planned availability of grid electrical power at the mine in 2011, which is not only considerably cheaper than diesel generated power but is operationally more practicable.

Another major factor in a decision to resume production is of course the cost of operating the mine, the majority of costs being incurred in South African Rand/Lesotho Maloti, compared to US Dollar sales revenue. The Rand has fluctuated considerably over the last two years, with the current rate of approximately R7.7:\$, some 13% stronger than the average rate for the financial year of R8.9:\$, which was 22% weaker than the rate of R7.3:\$/ prevailing in the year before that. The recent strengthening of the Rand against the Dollar has increased the cost of production as well as the cost of completing the DFS. On the other hand, project costs of some \$100 million estimated in the PFS in 2007 for construction of new Main Pipe plant, a substantial part of which will be incurred in Rand, were made at an assumed Rand rate of R7.1:\$/, so significant dollar equivalent cost reductions are indicated.

The Company was pleased to welcome Obtala Resources Plc as a significant new shareholder, when they subscribed for 50 million new ordinary shares in March 2009, for £1.75 million. The proceeds of this placement have been applied to progressing the DFS as well as to general working capital requirements.

The Company is also pleased with the overwhelming support shown by shareholders when they granted the Board, at a GM held on 16 November 2009, authority to place up to 29.4 million new ordinary shares. Since that date, on 17 November 2009 a further 27.9 million shares were placed with institutional and other shareholders to raise £3.9 million before expenses, subject to the Equity Swap arrangements discussed above. The Company is therefore funded in order to carry out its plans over the next year.

Since the last annual report, there have been changes to the management of the Company and the composition of the Board of Directors. In April 2009 Tony Williams resigned as a non-executive director to pursue other interests and, on your behalf, I would like to thank him for his contribution to the progress of the Company over many years. Tony was a founder director at the Company's inception in 2000 and was a former Chairman and continues to support the Company as a significant shareholder.

Tim Read served as Executive Chairman from July 2007 until I joined the Board at the end of March 2009 and I would like to thank him on your behalf for his excellent work in development of the assets at Liqhobong and in steering the Company through turbulent times in both the diamond industry and financial

markets. Tim continues to serve on the Board as a non-executive director until the AGM in December 2009 when he will step down due to other commitments. As a result of the suspension of production in late 2008, Mike Wittet, who had been appointed as Chief Executive Officer in November 2008, agreed to resume his previous role as a non-executive director and provide consulting services as required.

In July 2009, FinnCap were appointed as the Company's NOMAD and broker in place of Canaccord Adams Limited, which had served in this capacity since January 2006. We would like to thank Canaccord Adams Limited for their services and advice to Kopane.

The Company's Finnish Assets are being operated, financed and developed under a Joint Venture Agreement with Mantle Diamonds Limited ("JVA"). Under this JVA, Mantle can earn up to a 70% interest in the Finnish assets by expending US\$5 million, including producing a definitive feasibility study on the Lahtojoki property and issuing Kopane with 10 million shares in Mantle, with a pre-IPO value of £2 million. To date, Mantle has spent over £700,000 in respect of the definitive feasibility study at Lahtojoki.

As last year, the main challenge facing your company's executive management and its board of directors in the current year is to

align shareholder value, through the market value of the share price, with the substantial underlying value of Kopane's assets. As mentioned in this letter, your Company believes it to be in shareholders' best interests to consider various funding and developmental alternatives which will minimise dilution of share price.

I joined your Company as Chairman in March 2009 at the time of the investment of Obtala Resources Plc, on which I also serve as Chairman, because I saw in Kopane a Company with excellent assets and tremendous potential for growth in shareholder value. The Resource Statement announced on 10 September 2009 is further confirmation of the 30 million carats of underlying assets. Despite difficult market circumstances, I believe the Company has a great future as a significant diamond producer.

I would like to pay tribute to the contribution made by the Company's board of directors, staff, consultants and advisors in a challenging year. As always, thanks is due to our shareholders for their ongoing support as we endeavour to progress the Company and maximise value.


Frank Scolaro
 Chairman



Overview of Main Pipe showing Bauer rig (at left) and core rig (lower right)

OPERATIONAL REVIEW //



LESOTHO

The Company's diamond operations are located at the head of the Liqhobong Valley, high in the Maluti Mountains of northern Lesotho, on a mining lease covering 390 hectares. This licence contains five kimberlites of which three have yet to be extensively explored. Current operations comprise the Satellite Pipe, with a surface area of 0.9 hectare, the much larger Main Pipe, with a surface area of over 8.5 hectares, and the Satellite Plant (the "Plant"). The Liqhobong operating company, LMDC, owned 75% by Kopane and 25% by the GoL, received the original production licence for the Satellite Pipe from the GoL in 2001 and in February 2007 was successful in reaching agreement with the GoL for an extension to this mining licence to enable it to mine from the Main and Satellite Pipes for up to 20 years.

Kopane's primary asset is the Main Pipe at Liqhobong which it plans to bring to full value.

THE DEFINITIVE FEASIBILITY STUDY

The DFS has been underway since late 2007 and commenced as a result of the successful PFS which recommended proceeding to a DFS to determine the full potential of the Main Pipe. The Company has entered into agreements with industry recognised contractors to deliver a high quality study, with

supervision of the geological components by Howe to ensure that the work is conducted under high QA/QC standards to produce a robust geological resource.

The PFS report included a preliminary resource statement in mid 2007. In the last Annual Report the Company had just announced an interim resource statement on 17 November 2008 which updated the PFS resource statement and followed bulk sampling and core drilling work. This resulted in a re-interpretation of the geological model of the Main Pipe, to a significantly greater resource of 75.6 million tonnes, 79% greater than previously estimated in the PFS statement. The bulk sampling programme consisted of a series of samples extracted and processed to test the grade of the four identified facies, namely the K2, K4, K5 and K6, totalling 33,921 tonnes, to provide grade, stone size distribution and stone value data in each case. A total of 12,514 carats were produced from the bulk samples, at a bottom cut-off of 1 millimetre. These carats were valued by diamantiers at \$86/ct. in September 2008 and, applying this value, the indicative value of the Main Pipe was calculated at \$2.6 billion (29.6 million carats at \$86 per carat).

Since then the LDD work has been completed; this involved a 25 hole programme totalling

4,415 metres of drilling undertaken by Bauer Technologies South Africa (Pty) Limited using a Prakla RB-40 RC drill rig. The subsequent processing of 1,800 tonnes of the recovered drilling samples through the Company's onsite custom built 5 tonnes per hour Dense Media Separation plant was also completed under supervision under strict QA/QC conditions by Howe.



Following from this work, detailed diamond and statistical analysis of the results of the samples was undertaken and this has provided the Company with depth continuity data on the diamond grade for each of the facies to 180 metres from surface, enabling 43% of the kimberlite to be classified in the indicated category and less in the lower inferred category. In the diamond industry, the indicated resource category is generally accepted as the highest resource classification obtainable due to the nature of diamond deposits.

These results mean that the Company is able to demonstrate significantly higher confidence in the recoverable resource, because the indicated kimberlite category of 38.6 million tonnes alone represent over 10 years of production at over one million carats per annum (based on a processing rate of 3.5 million tonnes per annum noted in the Pre-Feasibility Study in 2007), which also better supports project financing alternatives for construction of a new processing plant.

In addition, there is a further inferred resource of 51.47 million tonnes of kimberlite down to the 2,040 metre depth level only, which is an average depth of 510 metres below surface. The mineralisation is open at depth, with one earlier diamond drill hole remaining in kimberlite to the end of the hole at a depth of 650 metres below surface. The resource categorization and limits are based on the same parameters used for the 2007 PFS interim resource estimate, also independently verified by Howe.

As a result of the above work, a final resource statement was published on 10 September 2009 which shows:-

The Company believes that the revised overall grade estimate of 33 cpht is the lowest estimate in a range of grade results ultimately possible in the Main Pipe due to anomalies arising from the diamond recovery analysis of the LDD samples. The analysis of these samples shows virtually no recovery of boart stones and reduced recovery of low quality (near gem) diamonds, which clearly reflects diamond losses incurred in the reverse circulation LDD drilling process. In order for the grade and contained diamonds to properly account for the loss of the boart and low quality diamonds, further work will be undertaken to account for these differences and assess the impact on the diamond grade for each of the kimberlite facies and on the overall diamond grade of the Main Pipe kimberlite.

The new resource statement updates the interim statement published in November 2008. The \$86 per carat run of mine valuation does not include the positive impact of large and bonanza stones, which could provide material economic enhancement to the project value. This is illustrated by the sale, at the end of 2006, of four stones, believed to be fragments from a 100+ carat stone, which



totalled approximately 78 carats and had a total value of \$1.43 million and by the sale in July 2008 of three premium stones, totalling approximately 27 carats, for \$0.63 million. All of these premium stones were sourced from the K5 facies. In addition, in 2008 Kopane has seen the occurrence in the Main Pipe of several large pieces of polycrystalline boart of over 100 carats each, including one of 263 carats. This is consistent with the report of Howe in respect of the PFS, in mid 2007, which identified stone value, along with ore grade, as one of the potential areas of upside for the economics of the Main Pipe project.

The Company is therefore confident that the Main Pipe will yield further large stones, although the proportion of which will be of gem quality is unclear. The Company is reviewing the feasibility of a further significant bulk sample from the areas of the Main Pipe which have already produced large stones.

Category	Attributable to LMDC (100%)			Net Attributable to Kopane (75%)		
	Tonnes (millions)	Grade (cpht)	Contained Diamonds (million carats)	Tonnes (millions)	Grade (cpht)	Contained Diamonds (million carats)
MAIN PIPE Mineral resources						
Indicated	38.56	31	12.04	28.92	31	9.03
Inferred	51.47	34	17.66	38.60	34	13.24
Total	90.03	33	29.70	67.52	33	22.27

Notes: 1. Bottom cut off screen size of 1.0mm
2. Results based on the 3D spatial estimate utilising diamond data collected from 26 LDD holes

Source: ACA Howe International Limited



Cat ADT-25 haul truck on way to Main Pipe

Other progress in the DFS includes collection of ore dressing study samples to assist in the plant design, completion of an airborne laser topographic survey in connection with identifying infrastructure requirements, including grid power, road access and the installation of environmental monitoring equipment.

The DFS was scheduled to be completed in mid 2009 but there were delays, in completing the LDD and processing the 1,800 tonnes of samples, which resulted in the resource statement being finalised three months later than anticipated, with the subsequent knock-on effect on other work, such as plant and tailings design. The significantly larger resource than originally estimated is also a factor in the work programme. In the meantime, the Rand has strengthened against both the US\$ and Sterling and this has exacerbated further costs required to complete the study. Certain key work on the DFS is continuing, such as work in connection with the environment and social impact of the project but, as discussed in the Chairman's letter to shareholders, the Company is re-evaluating with its advisors the benefit of spending

shareholders' funds to complete all aspects of the DFS ahead of other more immediate revenue generating alternatives.

The size of the Main Pipe kimberlite of 90 million tonnes is substantially more than the PFS resource statement. Consequently, a material factor under review is the size of the ultimate processing plant required to enable the Company to recover the full potential of rough diamonds in the most economic way. The PFS modelled resource indicated a mine life of approximately 16 years at a production rate of 3.5 million tonnes per annum. However, the larger kimberlite means that the company must assess the optimum combination of a longer mine life and a higher processing rate, subject to finalisation of plant and tailings design.

The Company's internal financial models show a robust net present value of the project; clearly the Company will endeavour to develop the mine to provide the greatest shareholder value, taking into account the timing and availability of funds needed to construct plant with a significantly higher processing capability. These considerations encompass expanding the existing Satellite Plant in the short term.

Capacity, Production and Sales

The Satellite Plant, which has a name-plate capacity of 60 tonnes per hour ("tph"), commenced production in late 2005. Commercial Production, as defined under the Licence Agreement with the GoL as a rate of 40 tph, was reached in July 2006 and LMDC was awarded an extension of its mining licence in January 2007 to encompass mining from the Main Pipe, for a period of 10 years with a further 10 years at LMDC's option.

In 2007/8, a total of 150,600 dry tonnes were treated in the Plant producing 56,500 carats, covering a 5 month period only. This compares with equivalent figures of 309,480 dry tonnes and 152,013 carats in the previous year. Production in both periods has been affected by the planned interruptions to production due to preparation for and conduct of the programme of bulk sampling of the individual facies, as required for the DFS. The grade of the feed declined to 37.5 cpht from 49.1 cpht in the previous year, as a greater proportion of the feed was sourced from the lower grade, but higher diamond value, Main Pipe and was further distorted by bulk sampling. Following completion of the bulk sampling programme in August 2008, the Plant was operating at greater efficiency, running mainly Main Pipe kimberlite, with a

blend of harder Satellite Pipe feed to optimise recoveries and production increased to reach nameplate capacity by October 2008.

However, the Plant's relatively small capacity of approximately 450,000 tonnes per annum did not provide any significant scope for achieving economies of scale to enable there to be sufficient cost reductions to offset the substantial fall in rough diamond prices. The rough diamond market fell very sharply in late 2008 and the Company reacted very quickly, reaching the hard decision, in spite of operations having been running well in the previous months, to suspend production at 1 December 2008.

Overall since commencement of production in the second half of 2005 until early December 2008, the Company has recovered some 352,000 carats of rough diamonds, of which 339,000 have been sold, including low grade industrial or boart stones, at an average price of \$50 per carat. Sales revenues are affected substantially by the incidence of premium stones which have a marked impact on prices achieved.

Sales in the financial year were as follows:

Date	Carats Sold	Revenue \$	\$/ct
18/07/2008	17,020.44	1,690,931	99.35
22/08/2008	14,489.71	783,426	54.07
31/10/2008	8,993.92	261,539	29.08
05/12/2008	15,478.49	334,664	21.62
05/12/2008 (Boart)	16,748.61	6,197	0.37
12/01/2009	12,377.06	326,199	26.36
Total incl. Boart	85,108.23	3,402,956	39.98
Total excl. Boart	68,359.62	3,396,759	49.69

In the financial year to 30 June 2009, although overall sales fell because of the reduced 5 month period of production, there was an increase in sales over the approximate comparative H1 period in 2007/8 of approximately 10% in terms of revenue and 47% in terms of carats (although this is distorted by a sale of boart stones in December 2008 of 16,749 carats). The above table shows the dramatic impact of the fall in prices in sales from October 2008, which offset the strong prices achieved in the two sales prior to that, including the excellent sale in July 2008 at \$99.35/ct which included three premium yellow stones, one of which, a 13.32 carat vivid yellow, sold for \$35,136 per carat, our highest price per carat achieved so far.

In addition to the above sales in the year, 12,514 carats of stones were recovered in July and August 2008 under the DFS bulk sample programme and are retained in inventory. As noted elsewhere, a valuation of \$86 per carat was received by independent diamantiers in September 2008.



Tertiary re-crush conveyor in Satellite Plant

Expected Number of Stones Recovered from Resource Estimate Tonnage

Tonnes	33.401	6.398	29.776	20.451	90.026
Size	K2 Facies	K4 Facies	K5 Facies	K6 Facies	TOTAL
> 200 cts	34	3	69	19	125
100 - 200 cts	75	8	170	50	303
50 - 100 cts	278	33	587	186	1,084
20 - 50 cts	1,673	239	3,422	1,178	6,512
10 - 20 cts	4,273	705	8,533	3,144	16,655
5 - 10 cts	21,426	4,117	41,685	16,527	83,755
1 - 5 cts	558,603	146,245	961,064	473,995	2,139,907
Total stones	586,362	151,350	1,015,530	495,099	2,248,341

The above table shows the modelled number of stones of 1 carat and above.

From the above table, the Company’s internal model (not independently verified) indicates that there are likely to be approximately 2.2 million stones of 1 carat or higher (approximately 8 million carats). The valuation of bonanza stones is difficult to predict. Kopane estimates the weighted average value of diamonds of one carat and above will be in the range of \$300 - 400 per carat for run of mine production (including boart stones). A major factor in determining value is the proportion of boart stones and it is estimated that this will vary from approximately 10% for run of mine, which accords with production to date, to 95% boart for stones of over 10 carats.

Apart from one small sale of rough diamonds in Johannesburg in 2005, all sales of Liqhobong diamonds, over 23 tenders, were made in Antwerp by BHP Billiton. The sales agreement terminated upon completion of the final sale in January 2009 and, as noted in

the Chairman’s letter to shareholders, LMDC is well advanced in the selection of a new agent and arrangements will be put in place in advance of a sales resumption. The Company is reviewing the best way to maximise its revenues taking into account the significant impact of premium stones as a proportion of sales revenues and is considering the best way to benefit from retaining an interest in the eventual sale of these high

value cut and polished diamonds. Sales of Liqhobong stones in the financial year once again attracted interest from regular buyers, despite difficult market conditions from the forth quarter of calendar 2008.

The table opposite summarises sales made since commencement of production.

This table shows the growth in carats sold and sales revenues achieved since 2005. Sales revenues have been in line with general market conditions for rough diamonds which increased steadily until the third quarter of calendar 2008. The numbers shown opposite are somewhat distorted by the sale of special premium diamonds sold from time to time and boart stones which are accumulated for several months before sale.

Before placement of the mine onto a care and maintenance basis, the Liqhobong project employed 113 workers, including sub contractors, most of whom are Lesotho nationals and of these a significant number are sourced from local communities.



Total Sales (inc board)	No of sales	Carats	\$	\$/ct
2008/9 To Jan. 2009	5	85,108	3,402,955	39.98
2007/8 H2	5	90,896	3,829,431	42.13
H1	5	57,928	3,103,010	53.57
2006/7 H2	2	30,025	3,157,226	105.15
H1	4	47,287	2,282,157	48.26
2005/6 H2	2	25,387	1,126,250	44.36
H1	1	2,736	89,414	32.68
Total	24	339,367	16,990,443	50.07

In addition, 25 other workers have been temporarily employed during the conduct of the DFS. Currently, a small number of maintenance, security and support staff are employed. The Company remains in close contact with former personnel who have operating experience at the mine and anticipates that it will be able to react quickly to a resumption in production. The level of operator experience and training will place the company in a very strong position when the planned much larger Main Pipe plant is constructed and commissioned over the next few years.

POWER

Power for the Satellite Plant mining operations is currently provided by diesel generators but the spiraling cost of diesel and the much greater power requirements of the Main Pipe necessitates that Lihobong will have to access grid power. Accordingly, the Company has completed engineering and environmental studies with independent contractors, in liaison with the Lesotho Electricity Company, with the aim of providing grid power to Lihobong.

A Memorandum of Understanding was signed on 17 August 2009 between the Company's subsidiary, Lihobong Mining Development Company, Lesotho Electricity Company, the Government of the Kingdom of Lesotho and Standard Lesotho Bank, in respect of funding of the construction of an electrical power line to the Company's mine at Lihobong. The MOU contemplates that funds will be lent by the bank to the LEC to fund the construction of the power line from LEC's sub-station at Ha Lejone, which is approximately 30 kilometres from Lihobong.

In addition, the LEC and the GOL will contribute funds towards the cost of the project and the GOL has agreed to provide a sovereign guarantee to the bank in respect of the loan funding. LMDC will finance the servicing of the loan and its repayment on terms which have yet to be agreed. The cost of the project has been estimated at R131 million and Kopane's share is expected to amount to R90 million. The plan is that construction will commence in early 2010, which should allow grid electricity to be connected to the mine site in the



Auditing of -3mm x-ray concentrate

first half of 2011. The cost of grid electricity represents a substantial saving over diesel generated power. It is estimated that, based on Lihobong's current operational capacity, diesel fuel costs approximately \$6 per tonne, compared to a tariff cost of under \$1 per tonne. Annual cash outgoings to LMDC of paying for grid power plus the cost of repaying capital and interest on the loans (to be negotiated) will be less than paying the alternative cost of diesel fuel.

LMDC's Satellite Pipe Plant at Lihobong has a capacity of 450,000 tpa, powered by diesel fuel which is trucked to site. The supply of grid electricity to provide power to run the process plant and related infrastructure is estimated to require approximately 1.7 mva. LMDC is evaluating increasing the size of the existing plant to approximately 750,000 tpa as an interim measure before the construction and operation of a much larger plant to process kimberlite from the Main Pipe. This new Main Pipe plant may be phased in on a modular basis to have an eventual capacity of 3.5 million tonnes per annum or higher.



Stripping of overburden at Lahtojoki

FINLAND

The Company's Finnish Assets are being operated, financed and developed under a Joint Venture Agreement ("JVA") with Mantle Diamonds Limited. Mantle is a privately-owned UK company with diamond exploration interests in Canada, the DRC, Lesotho as well as Finland.

Under this JVA, Mantle can earn up to a 70% interest in the Finnish assets by expending US\$5 million, including producing a definitive feasibility study on the Lahtojoki property and issuing Kopane with 10 million shares in Mantle, with a pre-IPO value of £2 million. To date, Mantle has spent over £700,000 in respect of the definitive feasibility study at Lahtojoki and work in the period included the following:

\\ Positive internal scoping study completed

\\ Drill indicated grade of 35ct/100t confirmed by independent study

\\ Perimeter 'definition' drilling completed comprising 11 shallow angled holes totalling 495m around the pipe to provide a better outline of the kimberlite beneath the till cover

\\ Detailed pit design generated following geotechnical and pit mining consultancy studies by Golder Associates and AMC Consultants

\\ Environmental approval received to commence earthmoving operations which will expose the eastern limb of the pipe for large diameter drilling (LDD)

\\ Agreement subsequently signed with Hartikainen Oy and 60,000 m³ of overburden till has been stripped

\\ Mantle plans to collect approximately 6,000 tonnes of representative kimberlite sample from surface trenching and a large diameter Kelly Bar Bauer drill rig at some stage in the future.

The Company owns 3.4 million shares in Mantle, which have an attributed value of £334,000. Under the terms of the JVA, the Company was, subject to certain conditions, due a cash payment by Mantle of £667,000 in August 2009; Mantle has requested deferment or other settlement of this obligation, which is under discussion with them.

DIAMOND DEMAND AND PRICES

Rough diamond prices in the year under review experienced considerable turmoil. Having doubled from 2002 until September 2008, the market suffered a severe correction due to the world economic situation and falls of approximately 50% were suffered in late 2008 to early 2009.

Several producers, including Kopane, lowered or suspended production which has reduced supply to the market. The following chart illustrates the reduction in market supply of rough diamonds in late 2008 and 2009 so far:

prices since the first quarter have been justified.

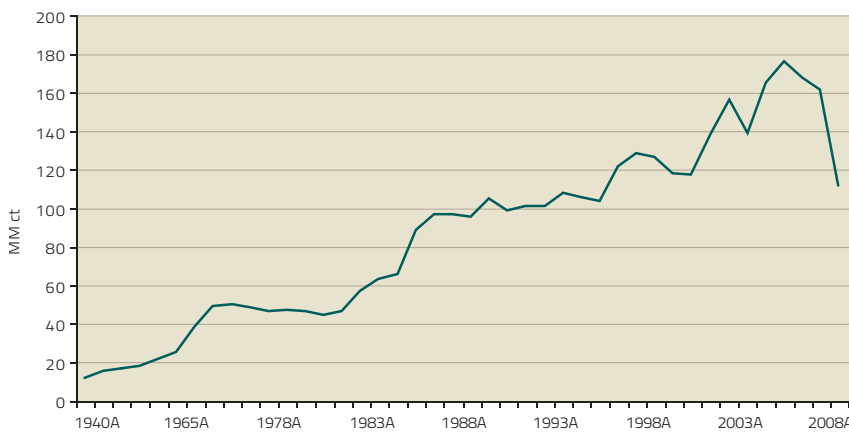
There has been a significant reduction in retail diamond inventories in the first half of 2009, although on the supply side Russian producer Alrosa returned to the market in July 2009. The value of rough diamond sights held by market leader De Beers for the whole of 2009 could be half of the previous year. For seasonal reasons, rough diamond demand is greater in the first half of a year.

According to market analysts, the key to a sustained recovery in rough diamond sales is a return

of confidence in the major jewellery diamond buying economies, in particular the US where over 40% of all diamond jewellery sales take place. While China and the Gulf states are still reporting good diamond jewellery off-take, they are not yet large enough to offset the soft US market. China and the Gulf each account for approximately 8% of global diamond demand at present, and India 7%. It will probably be another three to five years before they match the US in terms of size. Until then, the US will be the single most important component of sales and until economic growth and employment recover strongly, jewellery sales growth will likely remain under some pressure. Hence there is caution on a sustained pick-up in rough diamond prices until into 2010. However, there is a medium and long term supply shortage as shown in the below graph

Similar to our view last year, Kopane believes in the longer term that supply shortages will create a bullish rough diamond market.

Global Production (MM ct)

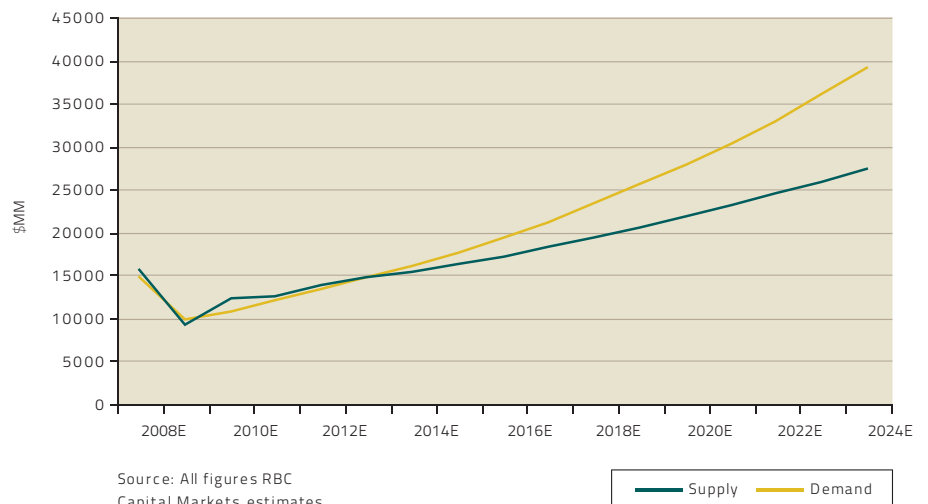


In calendar 2009 to date prices have picked up from the bottom by some 30-40% but at the time of writing the sustainability of this recovery and the timing of further increases are subject to market debate.

The summer period is generally quiet in the diamond trade and in 2009 slow global demand has seen less cutting and polishing activity in mid year. The third or fourth quarters of calendar 2009 will be critical and demand conditions will show whether the rise in rough diamond



Supply & Demand



Source: All figures RBC Capital Markets estimates

FINANCIAL

The consolidated net loss after taxation in respect of the year ended 30 June 2009 amounted to £4.5 million (loss per share 2.5p) compared to the consolidated net loss after taxation for 2008 of £4.7 million (loss per share 4.1p). Production was suspended in December 2008 as a result of falling rough diamond prices and as a result, sales of diamonds were lower with a corresponding reduction in mining, processing and employee costs. Other expenses were reduced significantly in the year from £1.8m to £1.3m and depreciation was lower by £0.5 million compared to the previous year resulting from writing off the mining assets over a longer period. An impairment loss of £0.4m was recognised through the income statement on investments held by the Group (2008: nil).

There were 5 diamond sales in the year to 30 June 2009 totalling 85,108 carats generating revenue of £1.9 million (2008: £3.4 million). The Group's only other income in the year arose from bank deposit interest which amounted to £42,000 (2008: £93,000), the decrease being due to lower interest rates during the year.

The net assets of the Group amounted to approximately £14.2 million at the year end (2008: £15.0 million) which included fixed assets of £3.3 million (2008: £3.2 million).

Intangible assets relate to accumulated deferred exploration and evaluation costs and goodwill in respect of the Group's diamond interests in the Main Pipe in Lesotho. The Group's accounting policy is to capitalise exploration and development costs pending determination of the feasibility of the project to which they relate.

These intangible assets at 30 June 2009 were approximately £6.2 million (2008: £2.7 million), the increase being due to expenditure in Lesotho of £3.0 million and a gain on exchange of £0.4 million. Inventories of £0.5 million (2008: £0.7 million) represent rough diamonds recovered during the feasibility study. Cash at 30 June 2009 amounted to £0.9 million (2008: £4.7 million).

CORPORATE AND SOCIAL RESPONSIBILITY

Kopane is committed to adhere to high standards of Corporate and Social Responsibility. The DFS for the Lihobong Main Pipe project incorporates an Environmental and Social Impact Assessment produced in compliance with the Equator Principles. The development of this project will be structured to ensure the maximum possible positive social impact on the Lihobong Valley and the Kingdom of Lesotho as a whole.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's diamond sales are based on the number and quality of rough diamonds recovered from production at its mine in Lesotho and transported to market. The Group's diamond sales are made in Antwerp, Belgium to invited customers who submit sealed bids.

The Group is therefore dependent on its mine production, recovery of diamonds and market conditions which prevail at the time of the sales.

The exploration activities of the Group are speculative due to the high-risk nature of this part of its business. There can be no assurance that the Group will be able to find or economically recover diamonds from its projects or that it will be able to complete planned development.

The Group's diamond sales are made in Belgium in US dollars which are converted into Lesotho Maloti. The Group also makes expenditure in Lesotho Maloti, South African Rand and Euros.

The Group is therefore exposed to the movement in exchange rates for the US dollar, Lesotho Maloti, South African Rand and Euros to Sterling. The Group does not hedge foreign exchange risk although monitors this situation and seeks to minimise cash held in foreign currencies.

The Group's projects require funding in order to realise their potential. The availability of funding cannot be guaranteed. The Group is exposed to the impact of changes to environmental legislation on its operations.



View from Lihobong camp to Satellite Plant and Main pipe

DIRECTORS' REPORT //

FOR THE YEAR ENDED 30 JUNE 2009

The Directors present their report with the consolidated financial statements of the Company for the year ended 30 June 2009.

At an Extraordinary General Meeting held on 18 June, 2008, shareholders approved to increase the authorised share capital of the Company.

PRINCIPAL ACTIVITY

The principal activity of the Group is diamond exploration and production in the Kingdom of Lesotho and diamond exploration and development in Finland. The principal activity of the Company is that of a holding company.

The review of the Group's business and prospects is set out in the Letter to Shareholders and Operational Review.

RESULTS AND DIVIDENDS

The Group loss after taxation for the year was £4.5 million after expensing the fair value of share options granted of £0.3 million (2008: loss of £4.7 million). The Directors do not recommend the payment of a dividend for the year (2008: nil).

DIRECTORS

During the year under review, the following Directors held office:

F Scolaro (appointed 30 March 2009)
J S Cable
A C Birnie
A J Williams (resigned 22 April 2009)
T R Read
B J Doyle
S Lay (resigned 3 October 2008)
E Marlow
M Wittet (appointed 19 August 2008)

All Directors' service contracts are determinable on not more than 12 months' notice.

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company:

	Shares held at 30 June 2009	Shares held at 30 June 2008 or date appointed	Share options held at 30 June 2009	Share options held at 30 June 2008 or date appointed	Option exercise price per share	Option exercise period
J S Cable	-	-	-	150,000	36p	19 May 2006 to 18 May 2015
			-	450,000	27p	27 January 2007 to 26 January 2016
			-	250,000	11.7p	22 November 2007 to 21 November 2016
			-	150,000	24.25	20 July 2007 to 19 July 2017
			1,400,000	-	10p	29 August 2008 to 29 August 2018
B J Doyle	-	-	-	100,000	43.5p	21 September 2005 to 20 September 2014
			-	175,000	27p	27 January 2007 to 20 September 2016
			-	350,000	11.75p	22 November 2007 to 21 November 2016
			-	50,000	24.25p	20 July 2007 to 19 July 2017
			750,000	-	10p	29 August 2008 to 29 August 2018
A C Birnie	-	-	-	10,000	187p	13 December 2002 to 12 December 2011
			-	30,000	101p	16 December 2003 to 15 December 2012
			-	50,000	75p	6 May 2004 to 5 May 2013
			-	300,000	43.5p	21 September 2005 to 20 September 2014
			-	50,000	27p	27 January 2007 to 26 January 2016
			-	350,000	11.75p	22 November 2007 to 21 November 2016
			-	150,000	24.25p	20 July 2007 to 19 July 2017
			1,200,000	-	10p	29 August 2008 to 29 August 2018
T P Read	1,250,000	750,000	-	1,000,000	24.25	20 July 2007 to 19 July 2017
			1,600,000	-	10p	29 August 2008 to 29 August 2018
M Wittet	-	-	500,000	-	10p	29 August 2008 to 29 August 2018
E Marlow	-	-	500,000	-	10p	29 August 2008 to 29 August 2018

DIRECTORS' REPORT // CONTINUED

Mr. Scolaro is a director of Obtala Resources Plc which at the date of this report is interested in an aggregate of 56,535,000 ordinary shares. He holds no share options or receives other remuneration.

Mr. Marlow is currently Managing Director, Emerging Markets Africa in HSBC Principal Investments. At the date of this document, HSBC Holdings plc, through its subsidiary companies, holds 26,876,260 ordinary shares.

On 5 December 2008 Mr. Read acquired 500,000 ordinary shares.

Changes in the Directors' interests between 1 July 2009 and the date of this report are as follows:

On 18 September 2009 Mr. Read exercised 1,100,000 share options at an exercise price of 10p per share and sold 500,000 ordinary shares.

On 21 September 2009 Mr. Wittet was granted options as noted below:

	Share Options Granted on 21 September 2009	Option exercise price per share	Option exercise period
M Wittet	750,000	14.25p	21 September 2010 to 20 September 2019

SUBSTANTIAL SHARE INTERESTS

As at 18 November, 2008 the Company was aware of the following substantial share interests:

	Ordinary shares	%
Obtala Resources Plc	24,335,000	9.69%
Spreadex Limited*	32,200,000	12.82%
HSBC Holdings Plc, through it's subsidiary companies	26,876,260	10.70%
Lanstead Partners Limited	24,750,000	9.85%
J P Morgan Asset Management (UK) Limited	15,847,167	6.31%
Generali Ambition	14,260,000	5.68%

* Obtala Resources Plc holds 32,200,000 indirectly through a financial instrument held by Spreadex Limited and is therefore interested in an aggregate of 56,535,000 shares representing 22.5 per cent. of the issued share capital.

SHARE CAPITAL

In December 2008, each ordinary share of 5p each was sub divided into one ordinary share of 1p each and one deferred share of 4p each.

In March 2009 the Company completed a private placement with Obtala Resources Plc raising £1.75m, before expenses, through an issue of 50,000,000 ordinary shares at 3.5p per share.

POST BALANCE SHEET EVENTS

In July 2009 the Company issued 500,000 ordinary shares to a company in the Dragon Group in settlement of amounts due of £52,000.

In August 2009 the Company signed a Memorandum of Understanding with Lesotho Electricity Company, Standard Lesotho Bank Limited and the Government of the Kingdom of Lesotho in respect of funding of the construction of an electrical power line to the Company's mine at Lihobong in Lesotho.

In September 2009 the Company announced an update to its Summary of Reserves and Resources in respect of the Main Pipe, details of which are covered in the operational review.

In September and October 2009, 1,871,582 new ordinary shares were issued as a result of exercises of share options at 10p per share and 1,333,989 new ordinary shares from an exercise of warrants at 10p per share.

On 16 November 2009, at a General Meeting, shareholders approved proposed share placements of up to 29.4 million new ordinary shares, of which 27.9 million have been placed at 14p per share to raise £3.9 million before expenses; of this amount, £3.15 million is payable over 24 months dependent on the Company's share price compared to a benchmark price of 18.67p per share. In addition, 1.5 million warrants with an exercise price of 25p per share were issued.

DIRECTORS' REPORT //

CONTINUED

CREDITOR PAYMENT TERMS

It is the Group's policy to settle all amounts due to creditors in accordance with agreed terms of supply and market practice in the relevant country.

The Company's average creditor payment period at 30 June 2009 was 42 days (2008: 32 days).

CORPORATE GOVERNANCE

Corporate governance is conducted in accordance with the guidelines for smaller companies, published by the Quoted Companies Alliance. The Board has appointed an Audit Committee, whose primary role is to review the accounts of the Group, and a Remuneration Committee, which reviews executive remuneration. Members of these Committees comprise the non-executive directors which during the year have been Mr Doyle, Chairman, Mr Williams (until his resignation), Mr Read (following his resignation as Executive Chairman in April 2009) and Mr Marlow. All Committee members have extensive knowledge and experience of mining companies relevant to the Company's operations. Meetings of the Board and of these Committees are held as deemed necessary. The Company has complied with the guidelines in issue during the year to the extent the Directors consider appropriate, having regard to the size of the Company and its current stage of development.

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors.

The Companies (Audit, Investigations and Community Enterprise) Act came into force on 6 April 2005. This Act extends the indemnities that a company can provide to its directors. The Company has subsequently indemnified each of its directors and certain of the Groups' other officers against certain liabilities.

RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 25 of the Financial Statements.

STATEMENT ON INFORMATION GIVEN TO AUDITORS

Each director at the time of approval of this report confirms so far as the director is aware, there is no relevant audit information of which the auditors are unaware, and he has taken all steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

The audit report has been signed in the name of PKF (UK) LLP and a resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting.

BY ORDER OF THE BOARD



J S Cable
Secretary

18 November 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES //

The directors are responsible for preparing the directors' 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 have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with those standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

\\ select suitable accounting policies and then apply them consistently;

\\ make judgments and estimates that are reasonable and prudent;

\\ state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union

\\ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

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 the group 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 the group 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 the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT //

TO THE MEMBERS OF KOPANE DIAMOND DEVELOPMENTS PLC

We have audited the financial statements of Kopane Diamond Developments PLC for the year ended 30 June 2009 which comprise the consolidated and company balance sheets, the consolidated income statement, the consolidated and company statements of cash flows, the consolidated and company statements of changes in shareholders' equity and the related notes. 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 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 Ethical Standards for Auditors.

SCOPE OF THE AUDIT

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

OPINION ON FINANCIAL STATEMENTS

In our opinion;

\\ the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2009 and of the group's loss for the year then ended;

\\ the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

\\ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and

\\ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

EMPHASIS OF MATTER – GOING CONCERN AND ADEQUACY OF PROJECT FINANCE

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2(a) to the financial statements concerning the group and the company's ability to continue as a going concern and adequacy of project finance. The group has continued to make losses in the year and has entered into an arrangement to raise further funding over the next 24 months the exact amount of which is dependent on the Company's share price compared to a benchmark price. On the basis that the benchmark price is achieved the directors believe that the company and the group will have sufficient funds to meet working capital requirements for at least the next 12 months but will need to raise additional funds to develop the major assets further. This along with other matters explained in note 2(a) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and the company were unable to continue as a going concern.

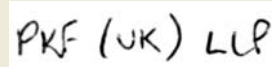
OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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



N Kissun

Senior statutory auditor
for and on behalf of PKF (UK) LLP, Statutory auditors

London Office
19 November 2009

CONSOLIDATED BALANCE SHEET //

COMPANY NO. 4108629

	Notes	Year Ended 30 June 2009 £'000	Year Ended 30 June 2008 £'000
Assets			
Property, plant and equipment	9	3,321	3,179
Intangible assets	10	6,173	2,728
Investments in joint venture entity	11,13	1,669	1,171
Available for sale investments	11,13	333	667
Trade and other receivables due after more than one year	15	2,584	2,583
Total non-current assets		14,080	10,328
Inventories	14	474	727
Trade and other receivables - due within one year	15	61	217
Cash & cash equivalents	16,23	869	4,729
Total current assets		1,404	5,673
Total assets		15,484	16,001
Equity			
Issued share capital	17.18	8,981	8,481
Share premium	17,18	26,111	24,933
Merger reserve	18	3,242	3,242
Share-based payment reserve	20	1,301	987
Foreign exchange translation reserve	18	868	(879)
Accumulated loss	18	(26,271)	(21,754)
Total equity		14,232	15,010
Trade and other payables	21	1,196	953
Total current liabilities		1,196	953
Non current provisions	22	56	38
Total liabilities		1,252	991
Total equity and liabilities		15,484	16,001



F Scolaro
Chairman



J S Cable
Finance Director

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 18 November 2009.

CONSOLIDATED INCOME STATEMENT //

	Notes	Year Ended 30 June 2009 £'000	Year Ended 30 June 2008 £'000
Revenue		1,925	3,422
Changes in inventories		(253)	134
Mining and processing costs		(2,367)	(3,432)
Employee benefit expense	6	(1,711)	(2,398)
Depreciation expense	5	(582)	(1,073)
Impairment of investments and deferred income	5	(359)	-
Gain on disposal of interest in subsidiary undertaking	12	-	325
Gain on exchange	5	140	114
Other expenses		(1,334)	(1,815)
Operating loss	5	(4,541)	(4,723)
Investment income	7	42	93
Share of loss in joint venture	13	(18)	(29)
Loss for the period		(4,517)	(4,659)
Basic and diluted loss per share (Pence)	19	2.5p	4.1p

CONSOLIDATED STATEMENT OF CASH FLOWS //

	Notes	Year Ended 30 June 2009 £'000	Year Ended 30 June 2008 £'000
Cash flows from operating activities			
Operating loss for the period		(4,541)	(4,723)
Adjustments for:			
Depreciation	5	582	1,073
Exchange difference		388	(272)
Equity-settled share-based payment transactions	5,20	314	398
Impairment of investments and deferred income		359	-
Profit on disposal of interest in subsidiary		-	(325)
		(2,898)	(3,849)
Decrease/(increase) in trade and other receivables		145	(128)
Decrease/(increase) in inventories		289	(189)
Increase in provisions for liabilities and charges	22	18	13
Increase in trade and other payables		104	199
Net cash used in operating activities		(2,342)	(3,954)
Cash flows from investing activities			
Interest received		42	93
Acquisition of intangibles		(3,039)	(1,242)
Acquisition of property, plant and equipment		(199)	(252)
Net cash used in investing activities		(3,196)	(1,401)
Cash flows from financing activities			
Proceeds from issue of share capital	17,18	1,750	6,030
Payment of transaction costs	17,18	(72)	(370)
Net cash from financing activities		1,678	5,660
Net (decrease)/increase in cash and cash equivalents	16	(3,860)	305
Cash and cash equivalents at 1 July 2008	16	4,729	4,424
Cash and cash equivalents at 30 June 2009	16	869	4,729

The notes on pages 32 to 63 form part of the annual financial statements

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY //

	Share capital £'000	Share premium £'000	Merger reserve £'000	Share based payment reserve £'000	Foreign exchange translation reserve £'000]	Accumulated earnings £'000	Total £'000
Opening balance 1 July 2007	5,468	22,286	3,271	589	(416)	(17,095)	14,103
Loss for the period	-	-	-	-	-	(4,659)	(4,659)
Foreign exchange loss	-	-	-	-	(463)	-	(463)
Total recognised loss for the year	-	-	-	-	(463)	(4,659)	(5,122)
Shares issued for cash	3,013	3,017	-	-	-	-	6,030
Share issue cost	-	(370)	-	-	-	-	(370)
Share based payments	-	-	-	398	-	-	398
Disposal of share in joint venture	-	-	(29)	-	-	-	(29)
30 June 2008	8,481	24,933	3,242	987	(879)	(21,754)	15,010
Loss for the period	-	-	-	-	-	(4,517)	(4,517)
Foreign exchange gain	-	-	-	-	1,747	-	1,747
Total recognised loss for the year	-	-	-	-	1,747	(4,517)	(2,770)
Shares issued for cash	500	1,250	-	-	-	-	1,750
Share issue costs	-	(72)	-	-	-	-	(72)
Share based payments	-	-	-	314	-	-	314
Balance end of year 30 June 2009	8,981	26,111	3,242	1,301	868	(26,271)	14,232

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

1. REPORTING ENTITY

Kopane Diamond Developments PLC (the “Company”) is a company domiciled in the United Kingdom and is listed on the AIM market of the London Stock Exchange. The consolidated financial statements of the Company for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the “Group”). The Group is primarily involved in diamond exploration and production in the Kingdom of Lesotho.

The Company was previously named European Diamonds PLC until its change of name to Kopane Diamond Developments PLC (“Kopane”) on 6 November, 2007 after approval from the shareholders at an Extraordinary General Meeting held on this day.

2. BASIS OF PREPARATION

(a) Going concern and adequacy of project finance

The Group owns diamond interests in Lesotho and Finland. In Lesotho, kimberlite continued to be recovered from the Satellite and Main Pipes and processed through the Company’s Satellite Plant, until December 2008 when it was suspended as the result of falls in the market price of rough diamonds.

The Company’s Finnish diamond interests are operated and financed under a Joint Venture Agreement (“JVA”) by Mantle Diamonds Limited. Under the JVA, Mantle is able to earn up to 70% interest in the assets by spending US\$5million on exploration and evaluation of the properties, including a bankable feasibility study in respect of the Company’s Lahtojoki property, and by paying the Company 10 million Mantle shares over three years. At 30 June 2009, Mantle had complied with its expenditure requirements under the JVA although it has requested deferral of future expenditure and other obligations, which are under discussion with them. If agreement is not reached regarding such deferrals, the Company may at its option elect to

have the assets returned, in which event the Company would seek other means of financing the evaluation of the properties. Consequently, the Company has not impaired the carrying value of its interest in the Finnish assets and this will be reviewed following agreement with Mantle, or, otherwise, clarification of financing.

In March 2009 the Group raised £1.75 million in cash by the issuing of 50 million ordinary shares, to provide funds for progression of the DFS and for general working capital resources. At 17 November 2009 the company raised a further £3.9 million before expenses by the issue of 27.9 million new ordinary shares. Of this amount, £3.15 million is payable over 24 months dependent on the Company’s share price compared to a benchmark price of 18.67p per share. On the basis that the benchmark price is achieved, the Group will have sufficient funds to meet its planned expenditure, although further funds will be required to re-start production and invest in a significant expansion of production. Given the stage of development of the Main Pipe project and the positive resource information announced, the directors believe that the Company will have the ability to access additional funds to meet further expenditure required to develop its assets and therefore the financial statements have been prepared on the going concern basis.

(b) Statement of compliance

The financial statements have been prepared on the basis of the recognition and measurement requirements of IFRSs as adopted by the European Union (“EU”) and implemented in the UK and their interpretations adopted by the International Accounting Standards Board (“IASB”). They have also been prepared in accordance with those parts of the Companies Act 2006 applicable to those companies reporting under IFRS.

2. BASIS OF PREPARATION (CONTINUED)

(c) Use of estimates and judgement

The preparation of financial statements in conformity with International Financial Reporting Standards ("IFRSs") requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(d) Functional and presentation currency

These consolidated financial statements are presented in United Kingdom pounds Sterling as the Company believes it to be the most meaningful currency given the nature of its operations. The functional currency of the Company is Sterling and the functional currency of its main operating subsidiary, LMDC, which is funded by the Company, is Maloti. All financial information presented in United Kingdom pounds Sterling has been rounded to the nearest thousand.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint ventures

A joint venture is an undertaking over which the Group is in a position to exercise joint control. The results, assets and liabilities of joint ventures are incorporated in these financial statements using the equity method. Under the equity method of accounting, the Group's share of the net assets and the profit or loss for the period are recognised in the balance sheet and income statement respectively.

(iii) Transactions eliminated on consolidation

Intra-group balances and any unrealised gains, losses, income or expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to pounds Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to pounds Sterling at foreign exchange rates ruling at the dates the fair value was determined.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to pounds Sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to pounds Sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly as a separate component of equity. They are released into the income statement upon disposal.

Loans to certain subsidiary companies are considered to be repayable in the foreseeable future and as such are not considered to be part of the group's net investment in those subsidiaries. Accordingly, translation differences in respect of such loans are recognised in the income statement

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables and available for sale investments.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below. At 30 June 2009 the fair value equated to the historical cost for all non-derivative instruments.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand are included as a component of cash flows from financing activities, for the purposes of the statement of cash flows.

Available-For-Sale Financial Assets

Available-for-sale financial assets, comprising of equity securities, are non-derivatives and are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale (other than impairment losses and foreign exchange gains and losses which are recognised in the income statement) are recognised in equity. Upon sale of a security classified as available-for-sale, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(c) Financial instruments (Continued)****(ii) Share capital****Ordinary shares**

Incremental costs directly attributable to issue of common shares and share options are recognised as a deduction from equity.

(d) Property, plant and equipment**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the estimated costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is charged to the income statement at the following rates in order to write off each asset over its estimated useful life.

- Mining assets 20% on straight line basis until 30 June 2014
- Fixtures and fittings 25% on reducing balance
- Computer equipment 25% on reducing balance

The residual value, if not insignificant, is reassessed annually. The company has reviewed the remaining useful life of the Mining assets and considers it appropriate to extend the period until 30 June 2014.

(e) Intangible assets**(i) Goodwill**

All business combinations are accounted for by applying the purchase method. Goodwill arises on the acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. Goodwill arising on acquisition is capitalised and shown within fixed assets. The excess of net assets over consideration paid on an acquisition is recognised directly in profit or loss.

(ii) Deferred Exploration and Evaluation Costs

These comprise costs directly incurred in exploration and evaluation as well as the cost of mineral licences. They are capitalised as intangible assets pending the determination of the feasibility of the project. When the existence of economically recoverable reserves is established the related intangible assets are transferred to property, plant and equipment and the exploration and evaluation costs are amortised over the estimated life of the project. Where a project is abandoned or is determined not economically viable, the related costs are written off.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The recoverability of deferred exploration and evaluation costs is dependent upon a number of factors common to the natural resource sector. These include the extent to which a Company can establish economically recoverable reserves on its properties, the ability of the Company to obtain necessary financing to complete the development of such reserves and future profitable production or proceeds from the disposition thereof.

(f) Investments

Held to maturity investments are initially measured at fair value. Fair value is measured with reference to quoted prices where available. Where no active market exists for the investment, fair value is established using an appropriate valuation technique.

Held to maturity investments are reviewed annually at the balance sheet date to establish whether any evidence exists as to the possible impairment of the investment.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet. Payments made under an operating lease are recognized on a straight line basis over the lease term.

(h) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine

whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

(i) Employee benefits

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period until the options vest unconditionally to the employee. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except if the change is due to market based conditions not being satisfied.

(j) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income tax expense

Income tax expense comprises current and deferred tax.

Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purposes. Deferred tax is not recognised for the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries that will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(n) Inventories

Inventories, which include rough diamonds are stated at the lower of cost-of-production or estimated net realisable value. Cost price includes direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less marketing costs.

(o) Merger reserve

In the Company's Balance Sheet, the investment in European Diamonds Limited and MineGem Inc. includes the nominal value of the shares issued as consideration for the acquisition of each company. As permitted by sections 131 and 133 of the Companies Act 1985, no premium was recorded on the issue of such shares. On consolidation, the difference between the nominal value of the shares issued and their fair value was credited directly to the merger reserve.

(p) Trade and other receivables

Trade and other receivables are stated at cost.

(q) Trade and other payables

Trade and other payables are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Revenue recognition

Revenue represents gross revenue from the sale of rough diamonds before selling costs. Revenue is recognised at the point of acceptance of customers' bids for the rough diamonds. Sales of rough diamonds recovered from the Main Pipe are included in revenue rather than treated as a deduction from Main Pipe exploration costs.

(t) Adoption of International Financial Reporting Standards

The financial statements are prepared in accordance with International Financial Reporting Standards and interpretations in force at the reporting date. The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board, but have not been adopted will have a material impact on the financial statements, other than in relation to IAS 1 (Presentation of financial statements) and IFRS 8 (Operating Segments) which will lead to presentation and disclosure amendments.

4. SEGMENT REPORTING

(i) Business segments

The Group's only business segment is the exploration for and development of diamond deposits. This is considered to be the Group's primary reporting segment.

(ii) Geographical segments

The Group also reports by geographical segment. The Group is managed in one principal geographical area, Lesotho, with support provided from the UK. During the previous year the Finnish assets were transferred to a joint venture and are no longer included in total assets shown below at the year end.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

All revenues receivable are from the Lesotho geographical segment.

GEOGRAPHICAL SEGMENTS

	Total assets		Capital expenditure on plant, property and equipment		Capital expenditure on intangibles	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000	2009 £'000	2008 £'000
UK	5,218	9,127	32	2	-	-
Lesotho	10,266	6,874	167	250	3,039	1,129
Finland	-	-	-	-	-	113
	15,484	16,001	199	252	3,039	1,242

5. OPERATING LOSS

	2009 £'000	2008 £'000
The operating loss is stated after charging:		
Auditors' remuneration		
Audit of the company	35	39
Taxation	5	12
Other	-	19
Impairment of investments and deferred income	359	-
Share based payments	314	398
(Profit) on disposal of interest in subsidiary	-	(325)
Depreciation	582	1,073
Exchange (gain)	(140)	(114)

6. STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of Employees	Number of Employees
	2009	2008
Finance and administration	11	10
Technical	37	58
	48	68
The aggregate payroll costs of these persons were as follows:		
	2009 £'000	2008 £'000
Wages and salaries	1,342	1,924
Social security costs	55	76
Share based payments	314	398
	1,711	2,398

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel remuneration is detailed below:

Directors (includes remuneration prior to appointment)	Salary £'000	Fees £'000	2009 Total £'000	2008 Total £'000
T P Read	190	-	190	112
A C Bernie	120	-	120	114
J S Cable	126	-	126	102
G M Beaton	-	-	-	15
S Lay	72	-	72	108
A J Williams	-	8	8	60
R G S Spencer	-	-	-	149
B Doyle	-	19	19	33
E Marlow	-	14	14	2
M Wittet	-	5	5	-
Total	508	46	554	695

The above amounts include £135,000 (2008:nil) for compensation for termination of contracts of Directors. An amount of £313,000 has been charged to employee benefit costs in the income statement for the year (2008: £398,000) in respect of share-based payments to key management personnel.

7. FINANCE INCOME AND EXPENSE

	2009 £'000	2008 £'000
Interest income	42	93
Net financing income	42	93

8. INCOME TAX EXPENSE

No liability to UK corporation tax or foreign tax arises in the year ended 30 June 2009 (2008:nil)

Factors affecting the tax charge of the current period	2009 £'000	2008 £'000
Loss before tax	(4,517)	(4,659)
Income tax using the domestic corporation tax rate of 28% (2008:29.5%)	(1,264)	(1,398)
Non-deductible expenses	364	124
Depreciation in excess of capital allowances	(6)	-
Unrelieved tax losses in the period	906	1,274
Total taxation	-	-

At 30 June 2009 the Group had tax losses to carry forward of £30,303,000 (2008: £21,629,000). No deferred tax asset has been recognised in respect of these losses due to the uncertainty to the extent and timing of the reversal of this asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

9. PROPERTY, PLANT AND EQUIPMENT

	Mining Assets £'000	Computer & Office Equipment £'000	Total £'000
Cost			
Balance at 1 July 2007	8,257	42	8,299
Additions	248	4	252
Exchange movement	(779)	(5)	(784)
Balance at 30 June 2008	7,726	41	7,767
Additions	145	54	199
Exchange movement	1,755	11	1,766
Balance at 30 June 2009	9,626	106	9,732
Depreciation and impairment losses			
Balance at 1 July 2007	(3,979)	(22)	(4,001)
Depreciation charge for the year	(1,068)	(5)	(1,073)
Exchange movement	486	-	486
Balance at 30 June 2008	(4,561)	(27)	(4,588)
Depreciation charge for the year	(552)	(30)	(582)
Exchange movement	(1,240)	(1)	(1,241)
Balance at 30 June 2009	(6,353)	(58)	(6,411)
Carrying amounts			
At 30 June 2009	3,273	48	3,321
At 30 June 2008	3,165	14	3,179

The directors do not consider that any impairment provision is necessary in relation to the Satellite plant at the year end despite the fact that production ceased in December 2008. The directors consider the Satellite plant to be an integral part in bringing the Main Pipe into full production and cannot be considered a separate cash generating unit for the purposes of an impairment review as envisaged by IAS 36. Consistent with this assessment the directors have re-evaluated the anticipated useful life of the Satellite plant assets and extended the estimated useful economic life of the relevant assets to June 2014, as detailed in the accounting policies.

10. INTANGIBLE ASSETS

	Goodwill £'000	Exploration and evaluation costs £'000	Total £'000
Cost			
Balance at 1 July 2007	1,037	7,255	8,292
Additions	-	1,242	1,242
Disposals	(112)	(7,217)	(7,329)
Exchange movement	-	523	523
Balance at 30 June 2008	925	1,803	2,728
Additions	-	3,039	3,039
Exchange movement	-	406	406
Balance at 30 June 2009	925	5,248	6,173
Impairment losses and amortisation			
Balance at 1 July 2007	(112)	(2,588)	(2,700)
Disposals	112	2,588	2,700
Balance at 30 June 2008 and 30 June 2009	-	-	-
Carrying amounts			
At 30 June 2009	925	5,248	6,173
At 30 June 2008	925	1,803	2,728

The disposals in the previous year relate to the assets transferred to the Joint Venture, which are now no longer consolidated within the Group financial statements.

Impairment loss

During the year the Group has not considered it necessary to make a provision for impairment against any of its exploration assets (2008: Nil). A detailed assessment of the deferred exploration assets is provided in the Operational review.

Goodwill

Goodwill is considered for impairment on an annual basis. The carrying value of goodwill is dependent on the ongoing activities of LMDC. The Directors do not consider there is any impairment to the carrying value of goodwill at this time.

11. GROUP ENTITIES AND INVESTMENTS

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Kopane Diamond Developments PLC effective interest	
			2009	2008
MineGem Inc	Canada	Investment	100%	100%
Liqhobong Mining Development Co.(Proprietary) Limited	Lesotho	Exploration	75%	75%
Maluti Diamonds (Proprietary) Limited	Lesotho	Exploration	100%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

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11. GROUP ENTITIES AND INVESTMENTS (CONTINUED)

Investments	Joint venture entities £'000	Other investments £'000	Total £'000
Cost			
Balance at 1 July 2007	-	-	-
Additions	1,171	667	1,838
Balance at 30 June 2008	1,171	667	1,838
Exchange movement	516	-	516
Share of net loss in joint venture	(18)	-	(18)
Impairment	-	(334)	(334)
Carrying amounts			
At 30 June 2009	1,669	333	2,002
At 30 June 2008	1,171	667	1,838

On 11 January 2008 Kopane Diamonds Plc entered into a joint venture agreement with Mantle Diamonds Limited whereby European Diamonds Limited, and its 100% subsidiaries Ilmari Exploration Oy and Karhu Mining Company Oy, became a joint venture entity. The group reported a profit in the previous year of £325,000 on this disposal. For details of the transaction refer to note 12. The other Investments relate to the shares acquired in Mantle Diamonds Limited as part of the joint venture agreement relating to the Finnish assets of the company. For details relate to note 12.

12. DISPOSAL OF INTEREST IN SUBSIDIARY

In January 2008 the Company entered into a Joint Venture Agreement ("JVA") with Mantle Diamonds Limited ("Mantle") to operate, finance and develop the company's Finnish assets. Under the JVA, Mantle subscribed for 3,779,188 shares representing 17% of the issued share capital of European Diamonds Limited ("EDL"). In return, Mantle issued the Company with 3,333,333 of its ordinary shares. At the balance sheet date the Company held 87% of the share capital of EDL, the joint venture entity. At the balance sheet date the Company values its holding in Mantle at 10p per share (2008: 20p per share) and has impaired the investment value accordingly.

In accordance with IAS 31 'Interests in Joint Ventures', EDL is considered to be a Joint Venture entity from the date of the agreement and as such is no longer treated as a subsidiary of the company. Although the Company has retained a majority interest in EDL at the balance sheet date, under the JVA the day to day management of EDL is under the control of Mantle, and Mantle are responsible for all the ongoing costs related to EDL. Based on these JVA terms EDL the company considers EDL to be a joint venture entity.

12. DISPOSAL OF INTEREST IN SUBSIDIARY (CONTINUED)

Under the JVA Mantle can earn up to 70% of the shares of EDL by fulfilling the following conditions:

- a. by spending US\$5 million on exploration and evaluation on the Properties. As part of this sum, Mantle has specifically agreed to commission, fully fund and complete a bankable feasibility study in respect of the Company's Lahtojoki property; and
- b. by paying the company 10 million Mantle shares, with an attributed value of 20 pence per share, as follows:

- \ \ One-sixth on completion of the JVA;
- \ \ One-sixth on satisfaction of certain conditions precedent;
- \ \ One-third within 24 months of completion of the JVA or on publication of a bankable feasibility study in respect of the Company's Lahtojoki property, whichever is earlier; and
- \ \ One-third 12 months thereafter.

At the balance sheet date the Company holds an interest of 3,333,333 Mantle shares included within Other Investments in note 11.

In the event that Mantle did not achieve an IPO within 18 months of the date of the JVA (i.e. by July 2009) the Company had the right to terminate the JVA in which case all shares in EDL would revert back to the Company unless Mantle pays the Company £666,667 in cash and agrees to pay the remaining £1,333,333 in either cash or shares.

Mantle has requested deferral of certain obligations under the JVA relating to the above payment and further expenditure in respect of their exploration and evaluation of the properties. At the date of this report the Company is in discussions with Mantle in respect of their deferral requests.

Profit on deemed part disposal of interest in European Diamonds Limited

The Group recognised a profit of £325,000 in the previous year on the disposal of the 17% share in the Net Assets of EDL.

13. JOINT VENTURE ENTITIES

The Group has the following interests in Joint Venture entities

	Country of incorporation and operation	Principal activity	Kopane Diamond Developments PLC effective interest	
			2009	2008
European Diamonds Limited	British Virgin Islands	Investment	87%*	87%*
Ilmari Exploration Oy	Finland	Exploration	87%	87%
Karhu Mining Company Oy	Finland	Exploration	87%	87%
* Investment held directly by the group				

European Diamonds Limited was a 100% owned subsidiary of the Company prior to the JVA with Mantle. European Diamonds Limited owns 100% of the issued share capital of Ilmari Exploration Oy and Karhu Mining Company Oy. For details of the joint venture agreement see note 12.

The Group accounts for interests in joint ventures using the equity method, whereby the Group recognises its share of Joint Venture net assets in its balance sheet and its share of profit or loss in its income statement. At the balance sheet date the Group's share of the net assets of the joint venture entity amounted to £1,669,000 (2008: £1,171,000) and its share of losses in the year amounted to £18,000 (2008: £29,000). The Group's share of these net assets does not reflect expenditure under the JVA amounting to approximately £700,000 made by Mantle in the year. The increase in the Group's share of net assets of the JV entity in the year are mainly from the effect of the translation of the underlying assets of the Finnish subsidiaries, which are denominated in Euros, due to the strengthening of the Euro in the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

13. JOINT VENTURE ENTITIES (CONTINUED)

The assets and liabilities of the joint venture entity at the balance sheet date are as follows:

	2009 £'000	2008 £'000
Assets		
Property, plant and equipment	1	1
Intangible assets	4,603	3,991
Total non-current assets	4,604	3,992
Trade and other receivables	77	73
Cash and cash equivalents	5	18
Total current assets	82	91
Total assets	4,686	4,083
Equity		
Issued share capital	1,818	1,818
Share premium	3,436	3,436
Accumulated loss	(3,244)	(3,844)
Total equity	2,010	1,410
Trade and other payables	27	24
Total current liabilities	27	24
Trade and other payables due in more than 1 year	2,649	2,649
Total liabilities	2,676	2,673
Total equity and liabilities	4,686	4,083

The joint venture had income and expenses for the period as follows:

	2009 £'000	2008 £'000
Income	-	-
Expenditure	(22)	(35)
(Loss) for the period	(22)	(35)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

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14. INVENTORIES

	2009 £'000	2008 £'000
Diamonds recovered, but not yet sold	399	624
Consumables	75	103
	474	727

15. TRADE AND OTHER RECEIVABLES

	2009 £'000	2008 £'000
Amounts falling due within one year		
Other receivables	27	190
Prepayments	34	27
	61	217

	2009 £'000	2008 £'000
Amounts falling due after than one year		
Amounts due from Joint Venture entity	2,584	2,583
Total trade and other receivables	2,645	2,800

The amounts due from the Joint Venture entity relate to loans made to EDL and its subsidiaries by the Company prior to the JVA. Under the equity method of accounting for joint ventures the Group includes such loans in its balance sheet.

16. CASH AND CASH EQUIVALENTS

	2009 £'000	2008 £'000
Bank balances	869	429
Call deposits	-	4,300
Cash and cash equivalents	869	4,729

17. SHARE CAPITAL

	2009		2008	
	Number of Shares	Amount £'000's	Number of Shares	Amount £'000's
Authorised				
Authorised ordinary shares of 5p each at 1 July	400,000,000	20,000	200,000,000	10,000
Increase	-	-	200,000,000	10,000
Ordinary shares of 5p each at 30 June	-	-	400,000,000	20,000
Ordinary shares of 1p each at 30 June	400,000,000	4,000	-	-
Deferred shares of 4p each at 30 June	400,000,000	16,000	-	-
Allotted, called up and fully paid				
On issue at 1 July	169,611,283	8,481	109,361,283	5,468
Ordinary 1p shares issued for cash	50,000,000	500	60,000,000	3,000
Exercise of share options	-	-	250,000	13
Closing balance				
Ordinary shares of 5p each	-	-	169,611,283	8,481
Ordinary shares of 1p each	219,611,283	2,196	-	-
Ordinary shares of 4p each	169,611,283	6,785	-	-

In December 2008 each ordinary share of 5p in the company was replaced with one ordinary share of 1p and one deferred share of 4p in a share capital restructuring. The deferred shares of 4p are deemed to have no value.

During the years ended June 2009 and 2008, the Company made the following share and warrant issues:

2009

In March 2009 the Company completed a private placement with Obtala Resources Plc raising £1.75 million, before expenses, through an issue of 50,000,000 ordinary 1p shares at 3.5p per share.

2008

In November 2007, 250,000 ordinary shares were issued on exercise of an option at 11.75p per share.

In May and June 2008 the Company completed private placements with institutional and private investors raising £6 million, before expenses, through an issue of 60,000,000 ordinary shares at 10p per share. In connection with this placing the Company issued warrants to subscribe for 1,333,989 ordinary shares at 10p per share exercisable up to 17 December 2009.

18. CAPITAL AND RESERVES

SHARES IN ISSUE	2009 £'000	2008 £'000
On issue at 1 July	169,611	109,361
Issued for cash	50,000	60,250
On issue at 30 June - fully paid	219,611	169,611

At 30 June 2009, the authorised share capital comprised of 400,000,000 ordinary shares of 1p each and 400,000,000 deferred shares of 4p each (2008: 400,000,000 ordinary shares of 5p each).

18. CAPITAL AND RESERVES (CONTINUED)**Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that do not have a Sterling functional currency. Exchange differences arising are classified as equity and transferred to the Group's translation reserve.

Merger reserve

The merger reserve relates to the acquisition of Minegem Inc. in 2003. As permitted by sections 131 and 133 of the Companies Act 1985, no premium was recorded on the shares issued as consideration for the acquisition of Minegem Inc. On consolidation, the difference between the nominal value of the shares issued and their fair value was credited directly to the merger reserve.

Share based payment reserve

The share based payment reserve includes an expense based on the fair value of share options issued.

Warrants

A summary of the changes in the Company's share purchase warrants for the years ended 30 June 2009 and 2008 is set out below:

	2009		2008	
	Warrants outstanding	Weighted average exercise price (£)	Warrants outstanding	Weighted average exercise price (£)
Opening balance	48,158,989	£0.27	56,286,500	£0.28
Lapsed	-	-	(9,461,500)	£0.28
Issued	-	-	1,333,989	£0.10
Closing balance	48,158,989	£0.27	48,158,989	£0.27

At 30 June 2009 the warrants in issue are analysed below:

	Shares	Exercise price	Expiry	
	21,000,000	£0.25	17/07/2009	
	1,333,989	£0.10	17/12/2009	
	25,825,000	£0.30	17/07/2009	

In September 2009 1,333,989 warrants of 10p per share were exercised raising £133,399.

In November 2009 1,500,000 brokers warrants at 25p per share were issued in connection with a share placement. These warrants remain outstanding at the date of this report.

19. LOSS PER SHARE**Basic loss per share**

The calculation of basic loss per share at 30 June 2009 was based on the loss attributable to common shareholders of £4,517,000 (2008: £4,659,000) and a weighted average number of common shares outstanding during the year ended 30 June 2009 of 182,111,283 (2008: 113,385,589).

Diluted Loss per share

The potential increase in ordinary shares from the exercise of any of the warrants or share options would be anti-dilutive as the Company has a net loss. These potential ordinary shares are therefore excluded from the calculation and the diluted loss per share figure reported is the same as the basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

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20. EMPLOYEE BENEFITS

Share-based payments

During the year the Company had in place a share option plan (the "Plan") covering Directors, officers, employees and consultants of the Company and its subsidiary companies. The exercise price of a future option grant is determined by the Board of Directors on the basis of the closing middle market price of the Company's shares on the trading day prior to the date of issue of the option, or the average middle market closing price of the preceding three days if higher. Options may be granted for a period of up to ten years and the Board of Directors determines the vesting provisions of each option granted, which may vary. The aggregate number of shares which may be issued and sold under the Plans may not exceed 10% of issued share capital. As at 30 June 2009 a total of 10,896,223 options remained available for grant under the Plan.

In September 2008 the existing share option scheme was restructured allowing the surrender of all existing share options to be replaced by an equivalent number of new share options, the value of which was calculated in accordance with the Black-Scholes model with an exercise price of 10p and a life of 10 years. The number of new options granted to replace the existing options was based on the expected value of the existing options and new options at the date of exchange, so as to result in a zero cost to the company.

The number and weighted average exercise prices of share options are as follows:

	2009		2008	
	Outstanding	Weighted average exercise price (£)	outstanding	Weighted average exercise price (£)
Opening balance	10,305,000	£.031	8,135,000	£0.33
Converted to 10p options (see above)	5,324,349	£.010		
Expired	-	-	(930,000)	£0.25
Issued	5,740,556	£.010	3,350,000	£0.23
Exercised	-	-	(250,000)	£0.12
Outstanding Balance	11,064,905	£.010	10,305,000	£0.31
Exercisable at the end of the period	5,324,349	£.010	7,250,000	£0.34

The value of services received in return for share options granted is measured by reference to the fair value of share options granted, measured based on the Black-Scholes model. The Black-Scholes model takes into account the contractual lives and expectations of early exercise of the options granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

20. EMPLOYEE BENEFITS (CONTINUED)

Fair value of share options and assumptions	2009	2008
Fair value at measurement date	£314,000	£398,000
Weighted average share price at date of issue	£0.0713	£0.2143
Weighted average exercise price	£0.10	£0.2322
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes model)	61%	58%
Option life (expressed as weighted average life used in the modelling under Black-Scholes model)	10 years	5 years
Expected dividends	Nil	Nil
Risk-free interest rate (based on national government bonds)	4.42%	4.07%

The expected volatility is based on the historical volatility of the Company's daily closing share price over a period of 5 years to the date of the grant. There are no market conditions associated with the share option grants. The fair value of stock options granted for the year ended 30 June 2009 was £314,000 (2008: £398,000) which was expensed in the income statement.

Employee expenses

	2009 £'000	2008 £'000
Share options granted in 2007 or before	-	92
Share options granted in 2008	79	306
Share options granted in 2009	235	-
Total expense recognised as employee costs	314	398

Share options

Share options held by directors are disclosed in the directors' report. The total number of options held at the year end are as follows:

Share options held at 30 June 2009	Share options held at 30 June 2008	Option exercise price per share
-	560,000	6 December 2001 to 5 December 2010
-	20,000	13 December 2002 to 12 December 2011
-	60,000	16 December 2003 to 15 December 2012
-	425,000	6 May 2004 to 5 May 2013
-	1,800,000	21 September 2005 to 20 September 2014
-	150,000	19 May 2006 to 18 May 2015
-	1,700,000	27 January 2007 to 26 January 2016
-	2,490,000	22 November 2007 to 21 November 2016
-	2,450,000	20 July 2008 to 19 July 2017
-	650,000	1 April 2009 to 31 March 2018
5,324,349	-	29 August 2008 to 28 August 2018
5,740,556	-	29 August 2009 to 28 August 2018
11,064,905	10,305,000	

21. TRADE AND OTHER PAYABLES

	2009 £'000	2008 £'000
Trade payables	258	257
Other payables	938	696
	1,196	953

22. NON-CURRENT PROVISIONS

	2009 £'000	2008 £'000
Environmental rectification provision		
At 1 July 2008	38	25
Charge for year	18	13
At 30 June 2009	56	38

The environmental rectification provision is expected to be used at the end of the mine life.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

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23. FINANCIAL INSTRUMENTS

The classes of financial instruments are the same as the line items included on the face of the balance sheet and have been analysed in more detail in the notes to the financial statements.

All the Group's financial assets are categorised as loans and receivables or available for sale assets and all financial liabilities are measured at amortised cost.

The board of directors determines, as required, the degree to which it is appropriate to use financial instruments and other hedging contracts or techniques to mitigate risks. The main risks for which such instruments may be appropriate are interest rate risk, foreign currency risk, liquidity risk and market price risk, each of which is discussed below. There is minimal credit risk as the Group receives payment for its sales prior to release of products to its customers and any investments are made in liquid securities with counterparties that have a sound credit rating.

Exposure to interest rate and currency risks arises in the normal course of the Group's business.

Derivative financial instruments are not used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

The Group's policy is to retain its surplus funds on short term deposits, usually between one week and four weeks duration, at prevailing market rates.

Foreign currency risk

The Group's diamond sales are made in Belgium in US dollars which are converted into Lesotho Maloti. The Group also makes expenditure in Lesotho Maloti, South African Rand and Euros. The Group is therefore exposed to the movement in exchange rates for the US Dollar, Lesotho Maloti, South African Rand and Euros and to Sterling. The Group does not currently hedge foreign exchange risk but seeks to minimise cash held in foreign currencies. This situation is be monitored.

As the majority of the Group's cash resources are held in Sterling, the Group has a downside exposure to any strengthening of the Euro, Maloti or Rand against Sterling as this would increase expenses in Sterling terms and accelerate the depletion of the Group's cash resources. As the entire Group's sales are made in US dollars, the Group has a downside exposure to any weakening of the US Dollar against Sterling as this would decrease revenue in Sterling terms and accelerate the depletion of the Group's cash resources. Any weakening of the Euro, Maloti or Rand against Sterling would, however, result in a reduction in expenses in Sterling terms and preserve the Group's cash resources. Any strengthening of the US Dollar against Sterling would, however, result in an increase in revenue in Sterling terms and preserve the Group's cash resources. In addition, any such movements in Euros and Maloti would affect the Consolidated Balance Sheet when the net assets of the Finnish Joint Venture and Lesotho subsidiary are translated from their functional currencies into Sterling.

The following table summarises the approximate effect on equity, adjusted through the translation reserve, based on selected % increases in exchange rates used when consolidating the foreign entities within the financial statements:

23. FINANCIAL INSTRUMENTS (CONTINUED)

	Increase/(decrease) in equity	£'000
Rand/Sterling rate	-increase of 10%	1,820
	-increase of 20%	4,080
	-decrease of 10%	(1,480)
	-decrease of 20%	(2,720)
US Dollar/Sterling rate	-increase of 5%	40
	-increase of 10%	90
	-decrease of 5%	(40)
	-decrease of 10%	(70)
Euro/Sterling rate	-increase of 5%	(330)
	-increase of 10%	(630)
	-decrease of 5%	365
	-decrease of 10%	770

The % changes in exchange rates shown in the above table varies between currencies according to market rates.

The Policy in relation to the translation of foreign currency assets and liabilities is set out in note 3 "Accounting Policies – Foreign currencies" to the consolidated financial statements.

In view of the potential significance of any strengthening of the Euro and Maloti against Sterling, the policy of holding the majority of the Group's cash resources in Sterling is kept under review.

There is not considered to be any material exposure in respect of liabilities incurred by the Group as these are of a short-term nature. The table below shows an analysis of cash and cash equivalents denominated by currency:

	Cash held 30 June 2009 £'000	Cash held 30 June 2008 £'000
Pounds Sterling	836	4,439
Euros	-	10
Maloti	33	280
	869	4,729

Interest rate risk

The Group had no corporate borrowings during the year and as such there was no interest rate risk in relation to borrowings. The Group retains surplus cash balances on short term deposits with rates fixed over those terms (between 1 week and 1 month). An increase or decrease in interest rates of 1% over the year would not have had a significant effect on the profits or equity of the Group.

Liquidity risk

The Group receives cash from the sales of rough diamonds, funding from shareholders and short term sources of finance as required to finance its operations. The Group monitors these budgets on a continual basis to ensure that all current and future liabilities can be met. The Group uses short term deposits to ensure that funds are available as required and that interest at market rates is received.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

23. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

The Group's credit risk in relation to its sales is minimal as payment is received prior to products being released to its customers. Credit risk in relation to amounts due from the joint venture entity depends on the joint venture's ability to mine, recover and sell diamonds, or otherwise to dispose of its assets.

The Company's credit risk in relation to amounts due from subsidiary and joint venture entities depends on their ability to mine, recover and sell diamonds, or otherwise to dispose of their assets.

Market risk

The Group has not been producing or selling rough diamonds since January 2009. As such there is no specific market risk at the date of this report. However, there is a longer term market risk associated with the project as a whole whereby a drop in diamond prices below expected levels may have an effect on the viability of the project.

Capital management

The Group's objective when managing capital is to safeguard the entity's ability to continue as a going concern, and develop its mining activities to provide returns for shareholders and benefits for other stakeholders.

The Group's capital structure comprises all components of equity (i.e. ordinary share capital, share premium, accumulated earnings and other reserves.) At 30 June 2009 the Group has no debt. When considering the future capital requirements of the Group and the potential to fund specific project development via debt the Directors consider the risk characteristics of all of the underlying assets assessing the optimal capital structure.

Fair values

The fair values of the Groups financial instruments reflect the carrying amounts shown in the balance sheet

24. FUTURE PROJECT EXPENDITURE

The Group does not have any capital commitments at 30 June 2009 (2008: nil).

25. RELATED PARTIES

Control of the Group

In the opinion of the Directors, there is no ultimate controlling entity of the Group.

Identity of related parties

The Group has a related party relationship with its subsidiaries and with its Directors and executive officers.

Transactions with key management personnel

At 30 June 2009 the Directors of the Company and their immediate relatives controlled 0.57% per cent of the voting shares of the Company. During the year ended 30 June 2009 the Company entered into the following transactions involving related parties:

During the year the Dragon Group, a group controlled by A J Williams, provided fully serviced office space, staff services and reimbursed expenses to the Group. A total of £128,000 (2008: £289,000) was charged to the Group. On 20 July 2009 the company issued 500,000 ordinary shares to a company in the Dragon Group in settlement of amounts due.

During the year Layco Limited, a company controlled by Stephen Lay, charged the Group £7,000 (2008: £28,000) for office space and related services.

Also during the year Obtala Resources Plc, a Company in which Mr Scolaro is a director and shareholder, charged the Company £1,800 (2008: nil) for management services.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Executive officers also participate in the Group's share option programme (see note 20). The key management personnel compensations are shown in Personnel expense (see note 6).

Details of the shareholdings of the directors' who held office at the end of the year are as follows:

	Shares held at 30 June 2009	Shares held at 30 June 2008 or date appointed	Share options held at 30 June 2009	Share options held at 30 June 2008 or date appointed	Option exercise price per share	Option exercise period
J S Cable	-	-	-	150,000	36p	19 May 2006 to 18 May 2015
			-	450,000	27p	27 January 2007 to 26 January 2016
			-	250,000	11.7p	22 November 2007 to 21 November 2016
			-	150,000	24.25	20 July 2007 to 19 July 2017
			1,400,000	-	10p	29 August 2008 to 29 August 2018
B J Doyle	-	-	-	100,000	43.5p	21 September 2005 to 20 September 2014
			-	175,000	27p	27 January 2007 to 20 September 2016
			-	350,000	11.75p	22 November 2007 to 21 November 2016
			-	50,000	24.25p	20 July 2007 to 19 July 2017
			750,000	-	10p	29 August 2008 to 29 August 2018
A C Birnie	-	-	-	10,000	187p	13 December 2002 to 12 December 2011
			-	30,000	101p	16 December 2003 to 15 December 2012
			-	50,000	75p	6 May 2004 to 5 May 2013
			-	300,000	43.5p	21 September 2005 to 20 September 2014
			-	50,000	27p	27 January 2007 to 26 January 2016
			-	350,000	11.75p	22 November 2007 to 21 November 2016
			-	150,000	24.25p	20 July 2007 to 19 July 2017
			1,200,000	-	10p	29 August 2008 to 29 August 2018
T P Read	1,250,000	750,000	-	1,000,000	24.25	20 July 2007 to 19 July 2017
			1,600,000	-	10p	29 August 2008 to 29 August 2018
M Wittet	-	-	500,000	-	10p	29 August 2008 to 29 August 2018
E Marlow	-	-	500,000	-	10p	29 August 2008 to 29 August 2018

F Scolaro is a director of Obtala Resources Plc which at the date of this report is interested in an aggregate of 56,535,000 ordinary shares.

E Marlow is currently Managing Director, Emerging Markets Africa in HSBC Principal Investments. At the date of this report, HSBC Holdings Plc, through its subsidiary companies, holds 26,876,260 ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS //

CONTINUED

26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Audit Committee reviews with management the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. At the balance sheet date the Audit Committee has carried out an assessment of deferred exploration costs, investments and any required impairment.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on managements' best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements.

Information about such judgements and estimation is contained in the accounting policies and/or the Notes to the financial statements, and the key areas are summarised below. Areas of judgement that have the most significant effect on the amounts recognised in the financial statements:

Capitalisation and impairment of exploration and evaluation costs – Note 3e, 3h, 11

Capitalisation, depreciation and impairment of property, plant and equipment – Note 3d, 3h, 9

Estimation of share based compensation amounts
Note 3i, 20

Investments – Note 11

The investment in Mantle Diamonds Limited is based on a share price of 10p per ordinary share. As shares in Mantle Diamonds Limited are not publicly traded there is no market price on which to base a valuation.

The directors have considered all relevant information available in determining the estimated value of the shares including representations from the management of Mantle Diamonds Limited and consider the valuation to be reasonable.

27. SUBSEQUENT EVENTS

In July 2009 the company issued 500,000 ordinary shares to a company in the Dragon Group in settlement of amounts due of £52,000.

In August 2009 the Company signed a Memorandum of Understanding with Lesotho Electricity Company, Standard Lesotho Bank Limited and the Government of the Kingdom of Lesotho in respect of funding of the construction of an electrical power line to the Company's mine at Liqhobong in Lesotho.

In September 2009 the Company announced an update to its Summary of Reserves and Resources in respect of the Main Pipe, details of which are covered in the operational review.

In September and October 2009, 1,871,582 new ordinary shares were issued as a result of exercises of share options at 10p per share and 1,333,989 new ordinary shares were issued from an exercise of warrants at 10p per share.

On 16 November 2009, at a General Meeting, shareholders approved the proposed share placements of up to 29.4 million new ordinary shares, of which 27.9 million have been placed at 14p per share to raise £3.9 million before expenses. Of this amount, £3.15 million is payable over 24 months dependent on the Company's share price compared to a benchmark price of 18.67p per share. In addition, 1.5 million warrants at 25p per share were issued.

COMPANY BALANCE SHEET //

COMPANY NO. 4108629

	Notes	As at 30 June 2009 £'000	As at 30 June 2008 £'000
Assets			
Property, plant and equipment	C	35	15
Investments	B	374	374
- subsidiaries	B	1,195	1,195
- joint ventures	B	333	667
- available for sale			
Trade and other receivables - due after more than one year	D	9,032	8,191
Total non-current assets		10,969	10,442
Trade and other receivables - due within one year	D	19,332	14,009
Cash and cash equivalents	E	836	4,449
Total current assets		20,168	18,458
Total assets		31,137	28,900
Equity			
Issued share capital	17,18	8,981	8,481
Share premium		26,111	24,933
Share-based payment reserve	20	1,301	987
Accumulated loss		(5,734)	(5,867)
Total equity		30,659	28,534
Trade and other payables	F	478	366
Total current liabilities		478	366
Total liabilities		478	366
Total equity and liabilities		31,137	28,900



F Scolaro
Non-executive Chairman



J S Cable
Finance Director

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 18 November 2009.

COMPANY STATEMENT OF CASH FLOWS //

	Notes	Year Ended 30 June 2009 £'000	Year Ended 30 June 2008 £'000
Cash flows from operating activities			
Operating loss for the period		(1,121)	(1,692)
Adjustments for:			
Depreciation	C	12	5
Exchange difference		(902)	(109)
Equity-settled share-based payment transactions		314	398
Impairment of investments and deferred income		358	-
Profit on disposal of interest in subsidiary		-	(422)
Management charges		(182)	(182)
		(1,521)	(2,002)
(Increase)/decrease in trade and other receivables	D	69	(63)
Increase in trade and other payables	F	113	132
Net cash used in operating activities		(1,339)	(1,933)
Cash flows from investing activities			
Interest received		39	91
Acquisition of property, plant and equipment	C	(32)	(2)
Cash advances and loans made to related parties		(3,959)	(3,473)
Net cash used in investing activities		(3,952)	(3,384)
Cash flows from financing activities			
Proceeds from issue of share capital	17,18	1,750	6,030
Payment of transaction cost	17,18	(72)	(370)
Net cash from financing activities		1,678	5,660
Net (decrease)/increase in cash and cash equivalents	E	(3,613)	343
Cash and cash equivalents as at 1 July 2008	E	4,449	4,106
Cash and cash equivalents as at 30 June 2009	E	836	4,449

COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY //

For the year ended 30 June 2009

	Share capital £'000	Share capital £'000	Share-based Payment reserve £'000	Accumulated losses £'000	Total equity £'000
As at 1 July 2007	5,468	22,286	589	(6,377)	21,966
Profit for the period	-	-	-	510	510
Total recognised income and expense	-	-	-	510	510
Issue of share capital	3,013	2,647	-	-	5,660
Share option costs recognised in reserves	-	-	398	-	398
As at 30 June 2008	8,481	24,933	987	(5,867)	28,534
Profit for the period	-	-	-	133	133
Total recognised income and expense	-	-	-	133	133
Issue of share capital	500	1,250	-	-	1,750
Share issue costs	-	(72)	-	-	(72)
Share options costs recognised in reserves	-	-	314	-	314
As at 30 June 2009	8,981	26,111	1,301	(5,734)	30,659

NOTES TO THE COMPANY

FINANCIAL STATEMENTS //

A. ACCOUNTING POLICIES FOR THE COMPANY

The financial statements have been prepared in accordance with IFRSs, as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS, and this and other accounting policies for the Company are consistent with those of the Group with the exception of the following:

a) Company income statement

As permitted by section 408 of the Companies Act 2006, the income statement of the company has not been separately presented in these financial statements.

b) Subsidiary investments

Investments in subsidiary and joint venture undertakings are stated at cost less impairment losses. Available for sale investments are stated at fair value.

B. INVESTMENTS

	Subsidiary undertakings £'000	Joint venture entities £'000	Other investments £'000	Total £'000
Cost				
Balance at 1 July 2007	5,600	-	-	5,600
Additions	-	1,195	667	1,862
Disposals	(5,226)	-	-	(5,226)
Balance at 30 June 2008	374	1,195	667	2,236
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at 30 June 2009	374	1,195	667	2,236
Impairment losses and amortisation				
Balance at 1 July 2007	3,786	-	-	3,786
Disposals	(3,768)	-	-	(3,768)
Balance at 30 June 2008	-	-	-	-
Impairment	-	-	334	334
Balance at 30 June 2009	-	-	334	334
Carrying amounts				
At June 30, 2009	374	1,195	333	1,902
At June 30, 2008	374	1,195	667	2,236

On 11 January 2008 the company entered into a Joint Venture Agreement with Mantle Diamonds Limited whereby Mantle acquired a 17% shareholding in European Diamonds Limited (the Joint Venture entity). Details of the transaction are detailed in note 12 to the Group financial statements.

B. INVESTMENTS (CONTINUED)

The company has a controlling interest in the following subsidiary undertakings:

Significant Subsidiaries	Country of incorporation and operation	Principal activity	Kopane Diamond Developments PLC effective interest	
			2009	2008
MineGem Inc	Canada	Investment	100%*	100%*
Liqhobong Mining Development Co.(Proprietary) Limited	Lesotho	Exploration	75%	75%
Maluti Diamonds (Proprietary) Limited	Lesotho	Exploration	100%	100%

*investment held directly by the company

C. TANGIBLE FIXED ASSETS

	Computer & Office Equipment £'000
Cost	
Balance at 1 July 2007	33
Additions	2
Balance at 30 June 2008	35
Additions	32
Balance at 30 June 2009	67
Depreciation and impaired losses	
Balance at 1 July 2007	(15)
Depreciation charge for the year	(5)
Balance at 30 June 2008	(20)
Depreciation charge for the year	(12)
Balance at 30 June 2009	(32)
Carrying amounts	
At 30 June 2009	35
At 30 June 2008	15

NOTES TO THE COMPANY FINANCIAL STATEMENTS //

CONTINUED

D. TRADE AND OTHER RECEIVABLES

Amounts falling due within one year	2009 £'000	2008 £'000
Current receivables due from related parties	19,248	13,861
Other receivables	50	121
Prepayments	34	27
	19,332	14,009

Amounts falling due in more than one year	2009 £'000	2008 £'000
Amounts due from related parties	9,032	8,191

E. CASH AND CASH EQUIVALENTS

	2009 £'000	2008 £'000
Bank balances	836	149
Call deposits	-	4,300
Cash and cash equivalents in the statement of cash flows	836	4,449

F. TRADE AND OTHER PAYABLES

	2009 £'000	2008 £'000
Trade payables	258	257
Other payables	220	109
	478	366

G. RELATED PARTY TRANSACTIONS

Company related party transactions are the same as those disclosed in note 25 of the Group financial statements, with the addition of transactions with its subsidiaries as follows:

Transactions with LMDC

During the year the Company made cash advances and reimbursed expenses to LMDC amounting to £3,959,000 (2008: £3,164,000). The company also charged LMDC a management charge of £182,000 (2008: £182,000) and interest on inter-company loans of £1,214,000 (2008: £2,112,000).

Other balances with subsidiaries

At the balance sheet date the company was owed the following amounts by its subsidiary and joint venture entities:

	2009 £'000	2008 £'000
LMDC	25,581	19,353
Minegem Inc.	36	36
Becksham Corp.	11	11
Becksham Limited	3	3
EDL Group of companies	2,649	2,649
	28,280	22,052

H. FINANCIAL INSTRUMENTS

The financial instrument disclosures for the Company are covered in note 23 to the Group financial statements.

NOTICE OF MEETING //

KOPANE DIAMOND DEVELOPMENTS PLC

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of FinnCap at 4 Coleman Street, London EC2R 5TA on 14 December 2009 at 11 am for the following purposes. Resolutions 10 and 11 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

1. To receive and adopt the Reports of the Directors and Auditors and the Financial Statements for the year ended 30 June 2009.
2. To re-appoint PKF (UK) LLP as Auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.
3. To re-elect Francesco Scolaro as a director.
4. To re-elect James Cable as a director.
5. To re-elect Andrew Birnie as a director.
6. To re-elect Michael Wittet as a director.
7. To re-elect Buddy Doyle as a director.
8. To re-elect Edward Marlow as a director.
9. THAT in substitution of all previous authorities to the extent unused, the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006, to exercise all the powers of the Company to allot shares in the Company and grant rights to subscribe for or to convert any securities into shares in the Company up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £829,157.05, this authority to expire at the earlier to occur of 31 December 2010 and the conclusion of the Annual General Meeting to be held in 2010 unless previously renewed, varied or revoked by the Company in general meeting, save that the Company may before such expiry make an offer or agreement which would or might require shares in the Company to be allotted or rights to subscribe for or to convert any securities into shares in the

Company to be granted after such expiry and the directors may allot shares in the Company or grant rights to subscribe for or to convert any securities into shares in the Company in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.

10. THAT subject to the passing of Resolution 9 above, the directors be and are hereby generally and unconditionally empowered pursuant to sections 570 and 573 of the Companies Act 2006 to allot equity securities (within the meaning of section 560 of the Companies Act 2006) wholly for cash pursuant to the authority conferred by Resolution 9 above as if section 561 of the said Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders (excluding any shareholder holding shares as treasury shares) but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements, record dates, legal or practical problems arising in, or pursuant to, the laws of any overseas territory, the requirements of any regulatory body or stock exchange or any other matter whatsoever; and
- (b) otherwise than pursuant to paragraph 10(a) above, up to an aggregate nominal amount of £502,519.40, provided that this power shall expire at the earlier to occur of 31 December 2010 and the conclusion of the Annual General Meeting of the Company to be held in 2010, unless previously renewed, varied or revoked by the Company in general meeting, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry and the directors may allot equity securities, in pursuance of such offer or agreement as if this power had not expired.

11. THAT:

- (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the Company's Articles of Association; and
- (b) the Articles of Association in the form of the draft produced at the meeting marked X and initialled by the Chairman of the Meeting for the purpose of identification be adopted as the Company's Articles of Association in substitution for, and to the exclusion of, the existing Articles of Association.

By Order of the Board

JS Cable

Secretary

18 November 2009

Registered Office

Carlyle House

235-237 Vauxhall Bridge Road

London SW1V 1EJ

NOTES:

1. A Shareholder is entitled to appoint another person as his proxy to exercise all of his rights to attend and to speak and to vote at the General Meeting. A Shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that Shareholder. Any corporation which is a Member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a Member provided that they do not do so in relation to the same shares.

2. A form of proxy is enclosed. Completion of a form of proxy, or other instrument appointing a proxy or any CREST Proxy Instruction will not preclude a Shareholder from subsequently attending and voting at the meeting in person.

3. To be effective, the instrument appointing a proxy, and any power of attorney or other authority under which it is executed (or a duly certified copy of any such power or authority), must either be sent (a) to the Company's Registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, so as to arrive no later than 48 hours before the time for holding the meeting or any adjournment of it or (in the case of a poll taken otherwise than at or on the same day as the meeting or adjourned meeting) for the taking of the poll at which it is to be used, or (b) lodged using the CREST Proxy Voting Service – see Note 8 below, or (c) by registering the appointment of a proxy for the meeting electronically by logging on to www.eproxyappointment.com and following the online instructions.

4. A Shareholder may register the appointment of a proxy or voting instructions for the meeting electronically. To do this, a Shareholder should visit www.eproxyappointment.com, where full details of the procedure are provided. A Shareholder will need the Control Number, the Shareholder Reference Number (SRN) and PIN which are printed on their form of proxy. The proxy appointment and/or voting instructions must be received by Computershare Investor Services PLC no later than 11.am on 12 December 2009. This website can only be used for the purpose stated above, not for sending any other document or information.

5. Holders of Ordinary Shares are entitled to attend and vote at general meetings of the Company. The total number of issued Ordinary Shares in the Company on 18 November 2009, which is the latest practicable date before the publication of this document, was 251,259,711. On a vote by show of hands every Shareholder who is present has one vote and every proxy present who has been duly appointed by a Shareholder entitled to vote has one vote. On a poll vote every Shareholder who is present in person or by proxy has one vote for every Ordinary Share of which he is the holder.

NOTICE OF MEETING //

CONTINUED

6. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that entitlement to attend and vote at the Annual General Meeting, and the number of votes which may be cast at the meeting, will be determined by reference to the Company's register of members at the close of business on 12 December 2009 or, if the meeting is adjourned, 48 hours before the time fixed for the adjourned meeting (as the case may be). In each case, changes to the register of members after such time will be disregarded.

7. Shareholders should note that the doors to the Annual General Meeting will be open at 10.30 am.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting (and any adjournment of the meeting) by following the procedures described in the CREST Manual subject to the provisions of the Company's articles of association. CREST Personal Members or other CREST sponsored members (and those CREST members who have appointed a voting service provider(s)) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message (regardless of whether it constitutes the appointment of a proxy, the revocation of a proxy appointment or an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by Computershare Investor Services (ID CREST 3RA50) by the latest time(s) for receipt of proxy appointments specified in Note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by timestamp applied to the

message by the CREST Applications Host) from which Computershare Investor Services is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to a proxy appointed through CREST should be communicated to him by other means.

10. CREST members (and, where applicable, their CREST sponsors or voting service providers) should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. The Register of Directors' interests in the share capital and debentures of the Company, together with copies of service agreements under which the Directors of the Company are employed, are available for inspection at the Company's registered office during normal business hours from the date of this notice until the date of the Annual General Meeting and will also be available for inspection at the place of the Annual General Meeting at least 15 minutes prior to and during the meeting.

13. An explanation of the business to be proposed at the meeting is set out in the Appendix to the Notice of Meeting.

APPENDIX TO THE NOTICE OF **MEETING** //

1. RESOLUTIONS 1 TO 8

Resolutions 1 to 8 deal with the receipt and adoption of the report of the Directors and the Financial Statements for the year ended 30 June 2009, together with the Auditors' Report, the appointment of PKF (UK) LLP as auditors of the Company, the authorisation of the Directors to set the Auditors' remuneration and the re-election of Directors.

2. RESOLUTION 9

Your directors may only allot shares or grant rights to subscribe for, or convert any security into, shares if authorised to do so by shareholders. The authority granted at the General Meeting held on 16 November 2009 is due to expire at this year's Annual General Meeting. Accordingly, Resolution No. 9 will be proposed as an ordinary resolution to grant a new authority to allot shares and grant rights to subscribe for, or convert any security into, shares up to an aggregate nominal amount of £829,157.05 representing approximately 33 per cent. of the total issued ordinary share capital of the Company as at 18 November 2009. If given, this authority will expire at the Annual General Meeting in 2010 or on 31 December 2010, whichever is the earlier. Other than in respect of shares issued pursuant to the warrants issued by the Company and the Company's obligations under its employee share schemes, the directors have no present intention of issuing any of the authorised but unissued share capital of the Company.

3. RESOLUTION 10

Your directors also require a power from shareholders to allot equity securities where they propose to do so for cash and otherwise than to existing shareholders pro rata to their holdings. The power granted at the General Meeting held on 16 November 2009 is due to expire at this year's Annual General Meeting. Accordingly, Resolution No. 10 will be proposed as a special resolution to grant such power. Apart from rights issues, open offers or invitations or any other pre-emptive offer, the power will be limited to the allotment of equity securities for cash up to an aggregate nominal value of £502,519.40 (being twenty per cent. of the Company's issued ordinary share capital at 18 November 2009). If given, this authority will expire on 31 December 2010 or at the conclusion of the Annual General Meeting in 2010, whichever is the earlier.

4. RESOLUTION 11

This resolution will make amendments to the Articles of Association. The principal amendments arise as a result of the changes to company law in England and Wales and practice since our current articles were last updated and the implementation on 1 October 2009 of the last parts of the Companies Act 2006. An explanation of the key changes is set out below.

APPENDIX TO THE NOTICE OF **MEETING** //

(a) The Company's objects

The provisions regulating the operations of the Company are currently set out in the Company's Memorandum and Articles of Association. The Company's Memorandum contains, among other things, the objects clause which sets out the scope of the activities the Company is authorised to undertake. This is drafted to give a wide scope.

The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum. The Companies Act 2006 provides that, with effect from 1 October 2009, a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in a company. Under the Companies Act 2006, the objects clause and all other provisions which are contained in a company's memorandum, for existing companies at 1 October 2009, are deemed to be contained in a company's articles of association but the company can remove these provisions by special resolution.

Further the Companies Act 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its Memorandum which, by virtue of the Companies Act 2006, are treated as forming part of the Company's Articles of Association as of 1 October 2009. Resolution 11 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's Memorandum of Association regarding limited liability, the new Articles also contain an express statement regarding the limited liability of shareholders.

(b) Articles which duplicate statutory provisions

Provisions in the new Articles which replicate provisions contained in the Companies Act 2006 are in the main amended to bring them into line with the Companies Act 2006.

(c) Redeemable shares

Under the Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The 2006 Act enables directors to determine such matters instead, provided they are so authorised by the articles. The new Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

(d) Authorised share capital and unissued shares

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the new Articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the Companies Act 2006, save in respect of employee share schemes.

(e) Voting by proxies on a show of hands

The Companies (Shareholders' Rights) Regulations 2009 have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect these changes and clarify how the provisions of the Companies Act 2006 giving a proxy a second vote on a show of hands would apply to discretionary instructions.

(f) Voting by corporate representatives

The Companies (Shareholders' Rights) Regulations 2009 have amended the Companies Act 2006 in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll. The New Articles contain provisions which reflect these amendments.

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GLOSSARY OF TERMS //

Anomaly

Any departure from the norm which may indicate the presence of mineralisation in the underlying bedrock.

Bulk sample

A large sample of mineralised rock, frequently hundreds of tonnes, selected in such a manner as to be representative of the potential ore body being sampled. Used to determine metallurgical characteristics.

Carat

Unit of measurement for gemstones, equal to 200 milligrams or 0.2 grams. For smaller gems, 100 points is equal to one carat.

Concentrate

A fine, powdery product of the milling process containing a high percentage of valuable metal.

Core

The long cylindrical piece of rock, about an inch in diameter, brought to surface by diamond drilling.

Diamond

The hardest known mineral, composed of pure carbon; low-quality diamonds are used to make bits for diamond drilling in rock.

Diamond drill

A rotary type of rock drill that cuts a core of rock that is recovered in long cylindrical sections, 2 cm or more in diameter.

Diamond Value

The estimated average value of the rough diamonds in the deposit expressed in terms of US\$ or US\$/carat at a stated bottom screen cut-off size.

Diamondiferous

Containing diamonds.

Dilution

Impact on mined grade through the contamination of non-ore species entering the extracted rock.

Exploration

Prospecting, sampling, mapping, diamond drilling and other work involved in searching for ore.

Exploration drilling

Drilling done in search of new mineral deposits, on extensions of known ore deposits, or at the location of a discovery up to the time when the Company decides that sufficient ore reserves are present to justify commercial exploitation. Assessment drilling is reported as exploration drilling.

Facies

Term used to distinguish part of parts of a single geological entity.

Feasibility Study

An economic study assessing whether a mineral deposit can be mined profitably, by estimating the capital and operating costs of a mine and the potential revenues from production.

Geology

The science concerned with the study of the rocks which compose the earth.

Grade

Number of units of mineral weight within a physical unit of ore, usually expressed in units per tonne or a percentage.

Indicated Resource

A resource whose size and grade have been estimated from sampling at places spaced closely enough that its continuity can be reasonably assumed.

Inferred Resource

A resource whose size and grade have been estimated mainly or wholly from limited sampling data, assuming that the mineralized body is continuous based on geological evidence.

JORC (Joint Ore Reserves Committee)

Australasian Code for Reporting of Identified Resources and Ore Reserves.

Kimberlite

Uneven-grain, ultramafic rock in which the visible minerals may include olivine, phlogopite, pyrope garnet, micro-ilmenite and chrome/diopside, which are cemented by a groundmass that may include serpentine, calcite, and chromite. Kimberlite and olivine lamproite (a similar type of rock) are the only known types of intrusive rock (primary source rocks) that may carry diamonds from the depths of the earth to the surface and may form primary diamond deposits.

Logging

The process of recording geological observations of drill core either on paper or on computer disk.

Macro-diamonds

Diamonds that cannot pass through 0.5 mm square mesh.

Measured Resource

A resource whose size and grade have been estimated from sampling at places spaced closely enough that its continuity is essentially confirmed.

Micro-diamond

Recovered diamonds less than 0.5 mm.

Mineral

A naturally occurring homogeneous substance having definite physical properties and chemical composition and, if formed under favourable conditions, a definite crystal form.

Mineral resource

A concentration or occurrence of natural, solid, inorganic or fossilized organic material in or on the earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from geological evidence and knowledge.

GLOSSARY OF TERMS //

CONTINUED

Mineralisation

Mineral or ore-bearing rock.

Pipe

A common term for a vertical cylindrical or column like mass of rock that cooled and solidified in the neck of a volcano.

Quality

The degree of excellence of a diamond, measured by its weight, colour, purity or clarity and its perfection of proportions and finish.

RC

Reverse Circulation (as relating to drilling), a drilling technique in which the cuttings are recovered through the drill rods thus minimising sample losses and contamination.

Recovery

Final separation process of diamonds from non-diamonds in the concentrate.

Reserve

That part of a mineral resource that can be mined profitably.

Resource

The calculated amount of material in a mineral deposit, classified as measured, indicated, or inferred, based on the density of information used.

Rock

Any natural combination of minerals; part of the earth's crust.

Rough diamonds

Untreated stones in run-of-mine form, which have been boiled and cleaned.

Sample

A small portion of rock or a mineral deposit taken so that the metal can be determined by assaying.

Sampling

Selecting a fractional but representative part of a mineral deposit for analysis.

Sawable

A rough diamond, usually an octahedron or irregular stone, whose shape dictates that the stone should most efficiently be sawn into two pieces before polishing.

Stone Size

Size of a stone measured as carats/stone.

Stripping

Mechanical removal of overburden.

Tailings

That portion of the ground ore from which valuable minerals have been extracted and is rejected or floated during concentration, changes in technology or economic circumstances can sometimes make the tailings economic to reprocess at a later date.

Trench

A long, narrow excavation dug through overburden, or blasted out of rock, to expose a vein or ore structure.

Weathering

A process of chemical change to rocks brought about by their exposure to oxygen and water.

Zone

An area of distinct mineralisation.



Lihobong Mine



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