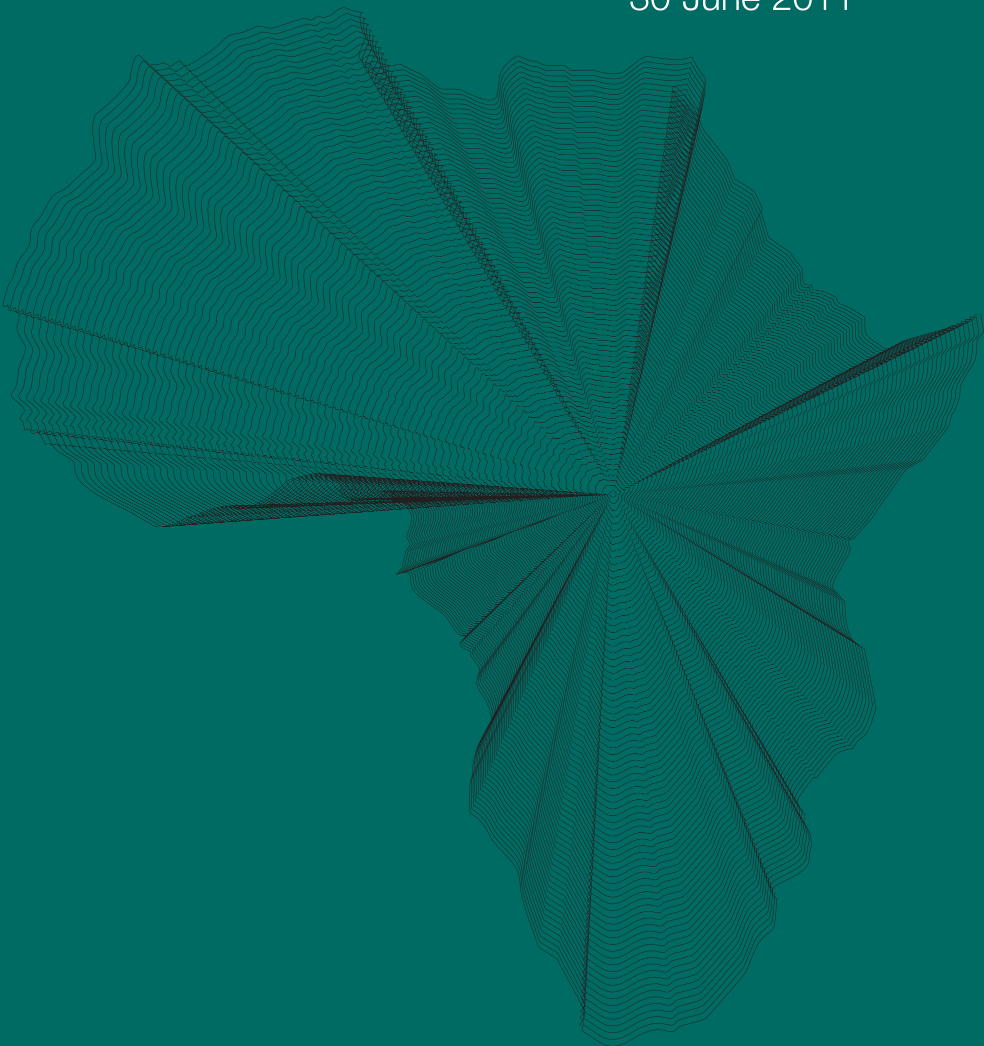
Obtala Resources Limited

Interim Financial Report

for the period ended
30 June 2011



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Chairman's Statement

I am pleased to present the interim report of Obtala Resources Limited ("Obtala" or "Company" and its subsidiaries (the "Group") for the six months to 30 June 2011.

Obtala had a very active first six months of the year which included its Paragon Diamonds subsidiary completing the acquisition of a 54.2 per cent. interest in International Diamond Consultants ("IDC"). Paragon Diamonds now holds 98.5 per cent. of IDC with the remaining 1.5 per cent. owned directly by the Company. Obtala's interest in Paragon has been reduced to 46.5 per cent. Obtala also agreed to acquire a 33 per cent. interest in the Mokopane Iron Ore Project by acquiring a 50 per cent. interest in Bushveld Resources which has an identified potential for more than 2 billion tons of iron ore, as well as agreeing to acquire a 37 per cent. interest in a South African Focused Tin project with an estimate resource of approximately 11,200 tonnes of tin.

Financial results

In March the Company successfully completed the placing of 12,000,000 new ordinary shares at a price of 50 pence per share raising £6 million. In addition Paragon raised £2.9 million in January by way of placing 8,500,000 new ordinary shares at a price of 34 pence per share. This has placed the Group in a very strong position to undertake its exploration and developing activities for the near term.

Group losses before tax for the six months to June 2011 amounted to £4.67 million and included £1.61 million impairment of its mining operation in Sierra Leone and exploration licences in Tanzania following a review by the directors of the carrying value of the intangible licences. A recent deterioration in the fiscal operating regime in Sierra Leone, which involves a large increase in the annual cost of holding title, has prompted a review of the operating strategy resulting in an impairment of £1.2 million in Sierra Leone.

Group net assets increased by £15.8 million during the half year to £59.9 million. The increase includes £12.6 million of net assets brought in to the Group under the acquisition of International Diamond Consultants Limited. The consideration was satisfied by way of issuing 36,994,235 shares in Paragon Diamonds Limited at a price of 34 pence per share. Group cash balances increased by £4.5 million during the six month period to stand at £13.3 million at 30 June 2011.

The Group generated a loss of £0.1 million on its investing activities during the period.

Chairman's Statement

Paragon Diamonds

The acquisition of a further 54.2 per cent. of IDC has increased the Group's interest up to 100 per cent. and has strengthened its asset base considerably, transforming Paragon into a hard rock diamond exploration and development company. The acquisition gives the Group direct interests in the Lemphane Kimberlite in Lesotho, the Kabale River and Kaplamp licences in Zambia as well as the recently awarded Kopje licence in Botswana. These, combined with Paragon's existing alluvial operations in Sierra Leone, give it a more diversified asset base.

The Lemphane licence covers a known 6 hectares surface area kimberlite in the world renowned diamondiferous region of the Kingdom of Lesotho. The Group has undertaken an immediate strategic review of the work underway at Lemphane and commenced a bulk sampling programme which will initially mine 25,000 tonnes of kimberlite to assess the grade and value of stones contained within the pipe. A bulk sampling plant has been assembled on site and stockpiles created ready for processing. It is anticipated that the initial results of the bulk sampling will be available around the end of the year.

Mokopane Tin

In February 2011 Obtala announced it had agreed to acquire a 50 per cent. interest in the issued share capital of Greenhills Resources Limited ("Greenhills") and a resulting 37 per cent. interest in the Mokopane Tin project, located in the Limpopo Province. The purchase consideration of $4 million will be payable to Greenhills under a new share subscription. At the time of the announcement, this tin project had an estimated resource of 3,400 tonnes of near surface pittable tin located in the Zaaiplaats tin mining district. Obtala has made a non refundable advance of $2 million to Greenhills on account of the purchase consideration in order to commence a drilling programme, with a further $750,000 advanced since the period end. The result of this drilling has increased the contained tin resource by 335 per cent. to 11,262 tonnes. The completion of the acquisition is still pending some due diligence but is expected to go through in Q4 2011. The next stage of drilling to be undertaken is on a further four targets and has the potential to significantly increase the resource.

Bushveld Iron

In March Obtala agreed to acquire a 50 per cent. interest in the entire issued share capital of Bushveld Resources Limited, which has interests in iron ore projects in South Africa. The total purchase consideration amounts to US$11.5 million, to be settled by way of issuing 11,949,378 new ordinary shares in Obtala plus $500,000 in cash. The deal is conditional on satisfactory renewal of underlying prospecting licences and is expected to complete in

Q4 2011. This will give the Group respective interests of 32 per cent. and 34.25 per cent. in the underlying subsidiaries that hold the licences over the Mokopane Iron Ore Project, and cover 7,409 hectares with the identified potential for more than 2billion tons of Magnetite hosted iron ore with vanadium and titanium deposits.

Montara Forestry and Agriculture

Since the period end the Group's Montara subsidiary has acquired additional interests in forestry concessions and equipment and has agreed to purchase a further area of land which when complete will bring Montara's total forestry land holding interests to 347,000 hectares. This provides the Group with the critical land mass required to develop a successful forestry business in Mozambique and brings it another step closer to creating a self-sustainable, profitable forestry and agricultural business which will provide a near term revenue stream.

Outlook

I look forward to the rest of 2011 with great enthusiasm and am optimistic that I will be able to report positive news on the bulk sampling programme being undertaken at the Lemphane Kimberlite in Lesotho, as well as the completion and further development of the Bushveld Iron and Mokopane Tin projects.

The group now has an expanded asset resource base and benefits from a strong balance sheet with cash balances of £13.3 million at 30 June 2011. I therefore remain confident that your company has an exciting and prosperous future.

Finally, I would like to thank our shareholders for their continued support and also all of our employees across the Group for their hard work and commitment in the period.

Francesco Scolaro
Executive Chairman
26 September 2011

Condensed Consolidated Statement of Comprehensive Income

For the six month period to 30 June 2011

	Notes	Six months to 30 June 2011 (Unaudited) £'000	Six months to 30 June 2010 (Unaudited) £'000	Year to 31 December 2010 (Audited) £'000
Revenue		687	–	832
Loss on investments	3	(150)	(137)	(535)
Diamond distribution rights income		–	177	177
Mine operating costs		(1,526)	–	(836)
Administrative expenses		(1,555)	(1,998)	(1,815)
Impairment of mine property		(1,203)	–	–
Impairment of intangible assets		(408)	(193)	(2,856)
Depreciation		(460)	–	(319)
Share based payment		(80)	–	(233)
Operating loss		(4,695)	(2,151)	(5,585)
Listing costs for subsidiary		–	–	(336)
Cost of re-organisation		–	–	(323)
Finance income		18	10	11
Finance costs		–	(13)	(18)
Loss before tax		(4,677)	(2,154)	(6,251)
Taxation	5	155	87	495
Loss for the period		(4,522)	(2,067)	(5,756)
Other comprehensive income:				
Exchange differences of re-translation of foreign operations		(1,223)	1,649	946
Total comprehensive income for the period/year:		(5,745)	(418)	(4,810)
Attributable to:				
Owners of the parent		(4,804)	(418)	(4,430)
Non-controlling interests		(941)	–	(380)
		(5,745)	(418)	(4,810)
Earnings/(loss) per share				
Basic (pence)	6	(1.56)	(0.97)	(2.65)
Diluted (pence)	6	(1.56)	(0.97)	(2.65)

The loss for the period arises from the Group's continuing operations.

Condensed Consolidated Statement of Changes in Equity

For the period from 1 January 2011 to 30 June 2011

	Share capital £'000	Share premium £'000	Merger reserve £'000	Foreign exchange reserve £'000	Share based payment reserve £'000	Retained reserves/ (deficit) £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 January 2010	1,927	5,290	16,400	5,022	89	1,610	1,610	–	30,338
Loss for the period	–	–	–	–	–	(2,067)	(2,067)	–	(2,067)
Exchange differences on retranslation of foreign operations	–	–	–	1,649	–	–	–	–	1,649
Total comprehensive income for the period	–	–	–	1,649	–	(2,067)	(2,067)	–	(418)
Issue of shares	295	6,708	–	–	–	–	7,003	–	7,003
Expenses of issue of shares	–	(4)	–	–	–	–	(4)	–	(4)
Cancelation of share options	–	–	–	–	(45)	45	–	–	–
Share based payment	–	–	–	–	12	–	12	–	12
Purchase of own shares	–	–	–	–	–	(735)	(735)	–	(735)
At 30 June 2010	2,222	11,994	16,400	6,671	56	(1,147)	36,196	–	36,196
Loss for the period	–	–	–	–	–	(3,309)	(3,309)	(380)	(3,689)
Exchange differences on retranslation of foreign operations	–	–	–	(703)	–		(703)	–	(703)
Total comprehensive income for the period	–	–	–	(703)	–	(3,309)	(703)	(380)	(703)
Issue of shares	19	280	–	–	–	–	299	–	299
Share based payment	–	–	–	–	221	–	221	–	221
Group re-organisation	–	(12,143)	12,143	–	–	–	–	–	–
Dilution of interest in subsidiary	–	–	–	–	–	5,579	5,579	6,218	11,797
At 31 December 2010	2,241	131	28,543	5,968	277	1,123	38,283	5,838	44,121
Loss for the period	–	–	–	–	–	(3,581)	(3,581)	(941)	(4,522)
Exchange differences on retranslation of foreign operations	–	–	–	(1,223)	–	–	(1,223)	–	(1,223)
Total comprehensive income for the period	–	–	–	(1,223)	–	(3,581)	(4,804)	(941)	(5,745)
Issue of shares	120	5,880	–	–	–	–	6,000	–	6,000
Share based payment	–	–	–	–	80	–	80	–	80
Dilution of interest in subsidiary	–	–	–	–	–	4,689	4,689	10,780	15,649
At 30 June 2011	2,361	6,011	28,543	4,745	357	2,231	44,248	15,677	59,925

Condensed Consolidated Balance Sheet

As at 30 June 2011

	Notes	30 June 2011 (Unaudited) £'000	30 June 2010 (Unaudited) £'000	31 December 2010 (Audited) £'000
ASSETS				
Non-current assets				
Investments in associate		–	–	5,927
Available for sale investments		–	–	317
Intangible exploration and evaluation assets	7	46,064	25,674	22,625
Plant and equipment		5,232	2,199	6,938
Total non-current assets		51,296	27,873	35,807
Current assets				
Trade and other receivables		1,489	223	498
Inventory		9	–	197
Financial investment assets	9	42	4,198	180
Cash and cash equivalents	9	13,299	5,966	8,825
Total current assets		14,839	10,387	9,700
TOTAL ASSETS		66,135	38,260	45,507
LIABILITIES				
Current liabilities				
Trade and other payables		(603)	(91)	(457)
Financial investment liabilities		–	(22)	–
Bank overdraft		–	(236)	–
Current tax liabilities		(349)	(553)	(622)
Total current liabilities		(952)	(902)	(1,079)
Non-current liabilities				
Deferred tax	5	(4,852)	(847)	–
Site restoration provision		(406)	(315)	(307)
Total non-current liabilities		(5,258)	(1,162)	(307)
TOTAL LIABILITIES		(6,210)	(2,064)	(1,386)
NET ASSETS		59,925	36,196	44,121

	Notes	30 June 2011 (Unaudited) £'000	30 June 2010 (Unaudited) £'000	31 December 2010 (Audited) £'000
EQUITY				
Share capital	10	2,361	2,222	2,241
Share premium	11	6,011	11,994	131
Merger reserve		28,543	16,400	28,543
Foreign exchange reserve		4,745	6,671	5,968
Share based payment reserve		357	56	277
Revenue reserve/(deficit)	12	2,231	(1,147)	1,123
Equity attributable to the owners of the parent		44,248	36,196	38,283
Non-controlling interests	15	15,677	–	5,838
TOTAL EQUITY		59,925	36,196	44,121

Approved by the board and authorised for issue on 26 September 2011

F Scolaro
Executive Chairman

M Bretherton
Finance Director

Condensed Consolidated Cash Flow Statement

For the period from 1 January 2011 to 30 June 2011

	Notes	Six months to 30 June 2011 (Unaudited) £'000	Six months to 30 June 2010 (Unaudited) £'000	Year to 31 December 2010 (Audited) £'000
OPERATING ACTIVITIES				
Operating loss		(4,695)	(2,151)	(5,585)
Adjustment for non-cash items:				
Loss on investments		150	137	535
Foreign exchange losses (gains)		69	–	(61)
Depreciation of plant and equipment		460	138	319
Share based payments		80	12	233
Impairment of assets		1,611	193	2,856
Decrease/(increase) in trade and other receivables		283	(51)	(325)
(Decrease)/increase in trade and other payables		(182)	(13)	355
Decrease/(Increase) in inventory		188	–	(197)
Listing costs for subsidiary		–	–	(336)
Cost of re-organisation		–	–	(323)
Cash outflow from operations		(2,036)	(1,735)	(2,529)
Income taxes paid		–	–	(365)
Net cash outflow from operations		(2,036)	(1,735)	(2,894)
INVESTING ACTIVITIES				
Purchases of property, plant and equipment		(200)	(90)	(2,431)
Expenditure on exploration licences	7	(715)	(148)	(694)
Purchase of investments	8	(145)	(1,224)	(1,841)
Disposal of investments		135	1,879	5,754
Purchase of subsidiary		(124)	–	–
Increase in loan receivable		(1,274)	–	–
Net cash inflow/(outflow) from investing activities		(2,323)	(417)	(788)
FINANCING ACTIVITIES				
Proceeds from issue of share capital	10	6,000	2,007	2,306
Expenses of issue of share capital	11	–	(4)	(4)
Funds raised by subsidiary		2,890	–	3,797
Expenses of issue of subsidiary shares		(90)	–	(150)
Finance income		18	10	11
Finance expense		–	(13)	(18)
Net cash inflow from financing activities		8,818	2,000	5,942

	Notes	Six months to 30 June 2011 (Unaudited) £'000	Six months to 30 June 2010 (Unaudited) £'000	Year to 31 December 2010 (Audited) £'000
Increase in cash and cash equivalents		4,459	682	3,836
Cash and cash equivalents at start of period		8,825	5,010	5,010
Effect of foreign exchange rate variation		15	38	(21)
Net cash and cash equivalents at end of period		13,299	5,730	8,825
Comprises:				
Cash and cash equivalents		13,299	5,966	8,825
Bank overdraft		–	(236)	–
Net cash and cash equivalents at end of period		13,299	5,730	8,825

The cash flows for the six months to 30 June 2011 do not reflect the non cash issue of shares by Paragon Diamonds with a value of £12,578,040 in consideration for the acquisition of International Diamond Consultants as set out in note 13.

The cash flows for the six months to 30 June 2010 do not reflect the non cash issue of shares by the Company with a value of £4,261,000 in consideration for the acquisition of Sierra Leone Hard Rock Ltd.

The cash flows for the year to 31 December 2010 do not reflect the non cash issue of shares by Paragon Diamonds with a value of £5,732,484 in consideration for the acquisition of International Diamond Consultants as set out in note 13.

Notes to the Condensed Consolidated Interim Financial Statements

1. BASIS OF PREPARATION

The interim financial statements of Obtala Resources Limited are unaudited condensed consolidated financial statements for the six months to 30 June 2011. These include unaudited comparatives for the six month period to 30 June 2010 together with audited comparatives for the year to 31 December 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial investments, available for sale investments and financial assets and liabilities which are included at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the period ended 31 December 2010.

The condensed consolidated financial statements do not constitute statutory accounts. The statutory accounts for the period to 31 December 2010 have been reported on by the Company's auditors and have been filed with the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or 237(3) of the Companies Act 1985.

3. (LOSS)/GAINS ON INVESTMENTS

	Six months to 30 June 2011 £'000	Six months to 30 June 2010 £'000	Year to 31 December 2010 £'000
Gain/(Loss) on disposal of investments	5	25	(633)
(Decrease)/increase in fair value of financial investments	(155)	(162)	98
Loss from investing activities	(150)	(137)	(535)

4. SEGMENTAL REPORTING

The Group is currently in the process of exploration and development of mineral projects all of which are in Tanzania, Sierra Leone and Southern Africa.

The following table shows the geographic segment analysis of the Group's loss after tax for the period and balance sheet net assets:

	Six months to 30 June 2011					
	Sierra Leone £'000	**Tanzania £'000**	**Southern Africa £'000**	**Central costs and investing activities £'000**	**Inter-group elimination £'000**	**Total £'000**
Revenue	687	–	–	–	–	687
Loss on investments	–	–	–	(150)	–	(150)
Management charge	–	404	–	–	(404)	–
Operating costs	(1,504)	(22)	–	–	–	(1,526)
Administrative expenses	–	(404)	–	(1,555)	404	(1,555)
Depreciation	(453)	–	–	(7)	–	(460)
Share based payment charge	–	–	–	(80)	–	(80)
Impairment of assets	(1,203)	(408)	–	–	–	(1,611)
Segment profit before interest	(2,473)	(430)	–	(1,792)	–	(4,695)
Finance income	–	–	–	18	–	18
Finance expense	–	–	–	–	–	–
Loss before tax	(2,473)	(430)	–	(1,774)	–	(4,677)
Taxation						155
Loss after tax						(4,522)
Balance sheet						
Assets	5,134	27,063	24,631	17,997	(8,691)	66,135
Liabilities:						
Current tax liability	–	–	–	(349)	–	(349)
Deferred taxation	–	–	(4,852)	–	–	(4,852)
Other	(2,636)	(5,480)	–	(1,583)	8,691	(1,008)
Net assets	2,498	21,583	19,779	16,065	–	59,925
Other segment items:						
Depreciation	(453)	–	–	(7)	–	(460)
Foreign exchange	(241)	(1,251)	183	–	–	(1,223)
Capital expenditure						
Plant and equipment	76	–	124	–	–	200
Intangible exploration and evaluation assets	–	404	24,631*	–	–	25,035

*Includes licences acquired as part of the International Diamond Consultants Limited acquisition (refer note 13).

Notes to the Condensed Consolidated Interim Financial Statements

	Six months to 30 June 2010				
	Sierra Leone £'000	Tanzania £'000	Central costs and investing activities £'000	Inter-group elimination £'000	Total £'000
Loss on investments	–	(89)	(48)	–	(137)
Diamond distribution rights income	177	–	–	–	177
Management charge	–	92	–	(92)	–
Administrative expenses	(1,483)	(92)	(515)	92	(1,998)
Impairment of intangible assets		(193)	–	–	(193)
Segment profit before interest	(1,306)	(282)	(563)	–	(2,151)
Finance income					10
Finance expense					(13)
Profit before tax					(2,154)
Taxation					87
Profit after tax					(2,067)
Balance sheet					
Assets	4,874	25,720	13,978	(6,312)	38,260
Liabilities:					
Current tax liability	–	(187)	(366)	–	(553)
Deferred tax liability	–	–	(847)	–	(847)
Other	(1,830)	(5,048)	(98)	6,312	(664)
Net assets	3,044	20,485	12,667	–	36,196
Other segment items:					
Depreciation	(125)	(7)	(5)	–	(137)
Foreign exchange	280	1,369	–	–	1,649
Capital expenditure					
Plant and equipment	2,053*	–	–	–	2,053
Intangible exploration and evaluation assets	2,593*	148	–	–	2,741

*Includes plant and equipment and intangible assets acquired as part of the acquisition of Sierra Leone Hard Rock Ltd.

	Year ending 31 December 2010				
	Sierra Leone £'000	Tanzania £'000	Central costs and investing activities £'000	Inter-group elimination £'000	Total £'000
Income statement					
Revenue	832	–	–	–	832
Losses on investments	–	–	(535)	–	(535)
Distribution fee income	177	–	–	–	177
Management charge	–	412	–	(412)	–
Operating costs	(721)	(115)	–	–	(836)
Administrative expenses	–	–	(2,227)	412	(1,815)
IPO expenses	–	–	(336)	–	(336)
Re-listing costs	–	–	(323)	–	(323)
Depreciation	(300)	(6)	(13)	–	(319)
Share based payment	–	–	(233)	–	(233)
Impairment of intangible assets	–	(2,856)	–	–	(2,856)
Segment loss before interest	(12)	(2,565)	(3,667)	–	(6,244)
Finance income	–	–	11	–	11
Finance expense	(18)	–	–	–	(18)
Loss before tax	(30)	(2,565)	(3,656)		(6,251)
Taxation					495
Loss after tax					(5,756)

Notes to the Condensed Consolidated Interim Financial Statements

	Year ending 31 December 2010				
	Sierra Leone £'000	Tanzania £'000	Central costs and investing activities £'000	Inter-group elimination £'000	Total £'000
Net Assets					
Assets	6,831	33,597	12,526	(7,447)	45,507
Liabilities:					
Current tax liability	–	–	(622)	–	(622)
Other	(2,472)	(3,270)	(2,469)	7,447	(765)
Net assets	4,359	30,327	9,435	–	44,121
Other segment items:					
Depreciation	(300)	(6)	(13)	–	(319)
Capital expenditure					
Plant and equipment	7,216*	–	–	–	7,216
Intangible exploration and evaluation assets	–	3,193**	–	–	3,193

* includes plant and equipment and mine property acquired as part of the acquisition of Sierra Leone Hard Rock Ltd.

** includes intangible assets acquired as part of the acquisition of African Rock Resources Limited.

5. TAXATION

The accrued tax credit for the six month interim period is based on an estimated effective tax rate of 3.3 per cent. after excluding losses generated in non domiciled Group companies (period to 30 June 2010: effective tax rate 4.4 per cent.: period to 31 December 2010: effective tax rate 7.9 per cent.). The accrued tax credit for the six month interim period relates to the loss before tax for the UK operations only. No deferred tax asset has been recognised in respect of losses in non domiciled Group companies due to the uncertainty of future recovery.

The Group has recognised a deferred tax liability of £4,852,000 at 30 June 2011 which arose on the acquisition of a subsidiary as set out in note 13.

6. EARNINGS PER SHARE

Basic earnings per share is based on the loss for the six months of £3,581,000 attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period of 229,454,283 exclusive of ordinary shares purchased by the Obtala Resources Employee Share Trust and held jointly by the Trust and certain employees (period to 30 June 2010: loss £2,067,000 divided by the weighted average of 213,390,018 shares; period to 31 December 2010: loss £5,756,000 divided by the weighted average of 217,108,815 shares).

7. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	African Rock Licences £'000	Renholn Licences £'000	IDC Licences £'000	SLHR Licences £'000	Mindex Licences £'000	Uragold Licences £'000	Montara Licences £'000	Total Licences £'000
Cost and book value at 1 January 2010	–	–	–	–	20,687	823	116	21,626
Acquisition of subsidiary	–	–	–	2,593	–	–	–	2,593
Expenditure on exploration and evaluation	–	–	–	–	115	–	33	148
Impairment charge for the year	–	–	–	–	–	(193)	–	(193)
Foreign exchange differences	–	–	–	187	1,231	82	–	1,500
Cost and book value at 30 June 2010	–	–	–	2,780	22,033	712	149	25,674
Purchase of mining licences	2,500	183	–		–	–	–	2,683
Transfer to tangible assets	–	–	–	(2,780)	–	–	–	(2,780)
Expenditure on exploration and evaluation	16	108	–		178	–	60	362
Impairment charge	–	–	–		(2,631)	(32)	–	(2,663)
Foreign Exchange	8	–	–		(620)	(39)	–	(651)
Cost and book value at 31 December 2010	2,524	291	–	–	18,960	641	209	22,625
Acquisition of subsidiary	–	–	24,168	–	–	–	–	24,168
Expenditure on exploration and evaluation	–	117	94	–	344	–	160	715
Impairment charge	–	(408)	–	–	–	–	–	(408)
Foreign Exchange	(86)	–	368	–	(1,267)	(51)	–	(1,036)
Cost and book value at 30 June 2011	2,438	–	24,630	–	18,037	590	369	46,064

Purchase of mining licences

The above values of intangible exploration assets acquired represent the cash and non-cash consideration paid by the Group at the time of their acquisition including the acquisition of International Diamond Consultants Limited in the six months to 30 June 2011 as set out in note 13, together with any subsequent expenditure, net of any effects of foreign exchange and impairment charges.

Impairment

The Directors have considered the following factors when undertaking their impairment review of the intangible assets:

(a) Geology and lithology on each licence as outlined in the most recent CPRs (Independent Competent Person's Reports)

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(b) The expected useful lives of the licences and the ability to retain the license interests when they come up for renewal

(c) Comparable information for large mining and exploration companies in the vicinity of each of the licences

(d) History of exploration success in the regions being explored by Mindex and Uragold

(e) Local infrastructure

(f) Climatic and logistical issues

(g) Geopolitical environment

After considering these factors the Directors have chosen to make an impairment charge of £408,000 to the carrying value of the intangible exploration and evaluation assets as at 30 June 2011 relating to the Renholn lithium licences and in respect of which the Directors have decided to terminate exploration plans in order to re-divert effort towards other licences with more potential.

8. INVESTMENTS AND DERIVATIVES

	Investments and derivative financial assets £'000	Derivative financial liabilities £'000	Total £'000
Book value at 1 January 2010	5,133	(160)	4,973
Additions	1,224	–	1,224
Disposals	(1,859)	–	(1,859)
(Decrease)/increase in fair value	(300)	138	(162)
Book value at 30 June 2010	4,198	(22)	4,176
Additions	109	–	109
Disposals	(4,525)	(154)	(4,679)
Increase in fair value	398	176	574
Book value at 31 December 2010	180	–	180
Additions	147	–	147
Disposals	(130)	–	(130)
Decrease in fair value	(155)	–	(155)
Book value at 30 June 2011	42	–	42

The financial instruments above represent short-term investments and derivatives in listed equity securities in mining and exploration companies which present the Group with the opportunity for return through trading gains. The fair values of these instruments are based on quoted market prices.

9. CASH AND CASH EQUIVALENTS

	30 June 2011 £'000	30 June 2010 £'000	31 December 2010 £'000
Cash at banks	13,299	3,095	8,228
Cash with institutions in support of derivative trading	–	2,871	597
	13,299	5,966	8,825

On 30 June 2011, the Group had no cash and cash equivalents pledged to institutions as collateral for liabilities or contingent liabilities relating to exposures on derivative trading assets and liabilities (30 June 2010: £2.9 million, 31 December 2010: £0.6 million).

10. SHARE CAPITAL

Obtala Services Limited	Number	£'000
Authorised ordinary shares of £0.01 each:		
At 1 January 2010, 30 June 2010, 31 December 2010 and 30 June 2011	250,000,000	2,500
Allotted, issued and fully paid ordinary shares of £0.01 each:		
At 1 January 2010	192,672,223	1,927
Issued in the period	29,481,029	295
At 30 June 2010	222,153,252	2,222
Issued in the period	1,026,722	10
At 31 December 2010	223,179,974	2,232
Issued in the period	–	–
At 30 June 2011	223,179,974	2,232

Obtala Resources Limited	Number	£'000
Authorised ordinary shares of £0.01 each:		
At 20 July 2010, 31 December 2010 and 30 June 2011	Unlimited	Unlimited
Allotted, issued and fully paid ordinary shares of £0.01 each:		
At 20 July 2010	–	–
Issued in the period	224,079,974	2,241
At 31 December 2010	224,079,974	2,241
Issued in the period	12,000,000	120
At 30 June 2011	236,079,974	2,361

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Obtala Resources Limited was incorporated in Guernsey on 20 July 2010. The Company was created to implement a re-organisation in relation to Obtala Service Limited (formerly Obtala Resources plc) which would create a greater international profile for the Group and its businesses.

Under the re-organisation, Obtala Services became a wholly owned subsidiary of Obtala Resources Limited on 16 September 2010. Shareholders in the Company at the time of re-organisation received 223,179,974 ordinary shares of 1p issued by Obtala Resources Limited in the same proportionate interest as they had in Obtala Services Limited immediately prior to the re-organisation.

On 7 October 2010 the Company issued 900,000 ordinary shares in the Company at a price of 15.5p per share a result of the exercise of warrants, raising gross cash proceeds of £139,500.

On 6 March 2011 the Company completed the placing of 12,000,000 new ordinary shares at a price of 50 pence per share raising gross cash proceeds of £6,000,000.

11. SHARE PREMIUM

	£'000
At 1 January 2010	5,290
Premium on issue of shares	6,708
Expenses of issue of shares	(4)
At 30 June 2010	11,994
Premium on issue of shares	284
Expenses of issue of shares	–
Transfer on group re-organisation	(12,143)
At 31 December 2010	131
Premium on issue of shares	5,880
Expenses of issue of shares	–
At 30 June 2011	6,011

See note 10 for details of shares issued in the six month period to 30 June 2011.

12. MOVEMENT IN REVENUE RESERVE AND OWN SHARES

	Retained earnings/ (deficit) £'000	Own shares £'000	Revenue Reserve £'000
At 1 January 2010	1,610	–	1,610
Loss for the period	(2,067)		(2,067)
Cancelation of share options	45	–	45
Purchase of own shares	–	(735)	(735)
At 30 June 2010	(412)	(735)	(1,147)
Loss for the period	(3,309)	–	(3,309)
Dilution of interest in subsidiary	5,579	–	5,579
At 31 December 2010	1,858	(735)	1,123
Loss for the period	(3,581)	–	(3,581)
Dilution of interest in subsidiary (see note 14)	4,689	–	4,689
At 30 June 2011	2,966	(735)	2,231

At 30 June 2011 the Company held 2,250,000 shares in trust (June 10: nil December 10: 2,250,000)

13. ACQUISITION OF SUBSIDIARY

On 17 May 2011 the Company's listed subsidiary Paragon Diamonds Limited ("Paragon") completed the acquisition of a further 54.2 per cent. interest in International Diamond Consultants Limited ("IDC") bringing the total ownership of IDC by Paragon to 98.5 per cent. with Obtala owning the remaining 1.5 per cent. This has diluted Obtala's interest in Paragon to 46.5 per cent. Obtala had initially purchased 1.5 per cent. of IDC for a cash consideration of $300,000 in July 2010 and Paragon subsequently purchased a further 44.3 per cent. of IDC in late 2010, for which the consideration of £5.7 million was settled by the issue of new ordinary shares. Paragon accounted for this as an investment in associate as at 31 December 2010.

Consideration for the remaining 54.2 per cent. was settled by way of issuing 35,670,705 new ordinary shares in Paragon at the market price of 34 pence per share equating to £12.1 million. Paragon also issued 1,323,530 new ordinary shares in Paragon to the vendors of IDC at a market price of 34 pence per share to fully settle outstanding debts of approximately £450,000 owed by IDC to its previous owners. In addition, a staggered cash consideration of USD700,000 was paid by Paragon to the IDC vendors

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under the terms of a joint venture agreement. A summary of the assets acquired and consideration paid is given below:

	Book Value £'000	Fair Value £'000
Net assets acquired		
Intangible assets	1,416	24,168
Trade and other payables	(46)	(46)
Site restoration provision	(328)	(328)
Deferred tax liability		(4,852)
Net assets acquired	1,042	18,942
Total consideration satisfied by:		
Issue of new shares in subsidiary		18,311
Cash (including £124,000 in current period)		631
		18,942

The estimated fair value of the net assets acquired is equal to the consideration paid and consequently there is no goodwill on acquisition.

14. DEEMED PARTIAL DISPOSAL OF SUBSIDIARY UNDERTAKING

In the six months to 30 June 2011 the Company's listed subsidiary Paragon Diamonds Limited ("Paragon") issued new shares to non controlling interests as set out in note 13 together with the issue of a further 8,500,000 new shares to raise gross cash proceeds of £2.9 million.

This has diluted Obtala's interest in Paragon to 46.5 per cent. and created a deemed disposal for the Group resulting in a gain recognised in equity of £4.7 million.

15. NON-CONTROLLING INTEREST

	£'000
At 1 January 2010	–
Non-controlling interests in net assets on partial disposal	–
Non-controlling interests in share of losses post acquisition	–
At 30 June 2010	–
Non-controlling interests in net assets on partial disposal	6,218
Non-controlling interests in share of losses post acquisition	(380)
At 31 December 2010	5,838
Non-controlling interests in net assets on partial disposal	10,780
Non-controlling interests in share of losses post acquisition	(941)
At 30 June 2011	15,677

16. RELATED PARTY TRANSACTIONS

During the period the Group companies entered into numerous transactions with subsidiary companies which net off on consolidation – these have not been shown. During the period the Group entered into the following transactions with external related parties:

	Six months to 30 June 2011 (Unaudited) £'000	Six months to 30 June 2010 (Unaudited) £'000	Year to 31 December 2010 (Audited) £'000
Transactions with other related parties:			
Transactions in the period:			
Advisory fees	–	3	15
Property recharges	22	17	40
Other recharges	–	2	–
Loan balance at period end:			
Advisory fees	–	–	5
Property recharges	15	3	–

All of the loan amounts referred to above are unsecured and repayable on demand. The advisory fees and property recharges are from Ora Capital Services Limited a subsidiary of a shareholder of the Company.

During the period the Company paid remuneration to the Directors' in accordance with their service contracts and letters of appointment.

17. INTERIM FINANCIAL REPORT

A copy of this interim report will be distributed to shareholders and is also available on the Company's website at www.obtalaresources.com.

Directors and Officers

DIRECTORS

Francesco Scolaro	*(Executive Chairman)*
Simon Rollason	*(Managing Director)*
Michael Bretherton	*(Finance Director)*
Nicholas Clarke	*(Non-executive Director)*
Lord St John of Bletso	*(Non-executive Director)*
James Ede-Golightly	*(Non-executive Director)*

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