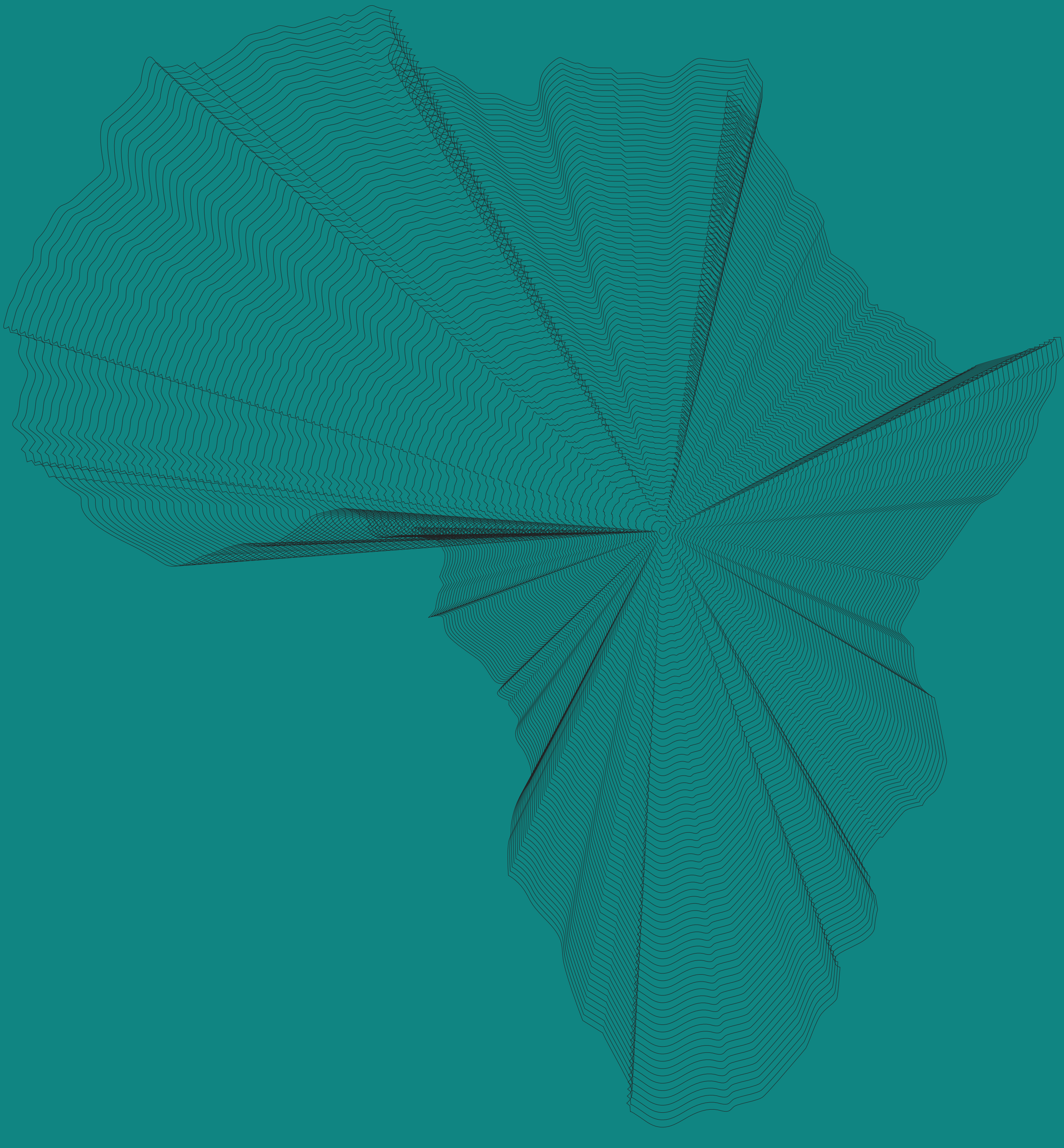
Obtala Resources Limited

Financial Statements 2010



Directors and Officers

DIRECTORS

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

COMPANY SECRETARY
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COMPANY NUMBER
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Chairman's Statement

I am pleased to present the annual report and consolidated financial statements for Obtala Resources Limited ("Obtala" or the "Company") for the year ended 31 December 2010.

This was an eventful year for Obtala, which successfully completed its re-organisation into an international Group under an AIM listed Guernsey holding company, Obtala Resources Limited, and also saw the commencement of diamond sales from its alluvial mining operation in Sierra Leone. The Sierra Leone Hard Rock diamond operation was combined with African Rock Resources, a privately held company with a diamond exploration licence in Tanzania, to create a new group which was listed on AIM as Paragon Diamonds Limited ("Paragon") in November 2010. In December 2010, Paragon acquired a 44.3 per cent. interest in International Diamond Consultants Limited ("IDC"), a private diamond exploration group holding licences in both Lesotho and Zambia. Obtala owned 61.3 per cent. of its Paragon subsidiary at 31 December 2010.

During the year, Obtala also acquired an 80 per cent. interest in a lithium brine exploration project in Argentina as well as continuing to conduct geological prospecting over its portfolio of assets in Tanzania, including its early stage gold, base metal and iron ore projects. In addition, the Group made good progress in developing its Tanzanian agricultural interests and trial farming to optimise crops will take place in 2011.

Subsequent to the year end, Obtala has further expanded its asset base with the conditional acquisition of a 37 per cent. interest in a near-term tin deposit in South Africa, together with interests of 32 per cent. and 34 per cent. in two South African iron ore projects and Paragon has increased its interest in IDC up to 98.5 per cent. In addition, both Obtala and Paragon completed successful fundraisings of £6 million and £2.9 million respectively in early 2011.

Financial results

The Group remained development focused in the year ended 31 December 2010 but did commence diamond production and sales in the final quarter which generated revenues of £0.8 million in addition to diamond distribution income of £0.2 million. The loss after tax for the year amounted to £5.8 million (2009: profit £1.8 million) after allowance for a £2.9 million non-cash impairment of intangible licence assets charge (2009: £1.8 million) and a £0.5 million loss on investing activities (2009: gain £5.7 million). Also included in the results for the year are £0.7 million of one-off costs relating to the re-organisation of the Group under an AIM listed Guernsey holding company and the admission of Paragon on to the AIM market.

A gain of £5.6 million arising on the deemed partial disposal of the Group's interest in its Sierra Leone/Paragon operation which reduced from a holding of 100 per cent. to 61.3 per cent., was recognised directly to equity during the year.

Net equity attributable to shareholders of Obtala at 31 December 2010 amounted to £38.3 million (2009: £30.3 million). Net assets, including those attributable to minority interests in Paragon, amounted to £44.1 million (2009: £30.3 million) and Group cash balances amounted to £8.8 million (2009: £5.0 million).

Corporate investing activities

Obtala has augmented its pure exploration and development activities with complementary investment activities, focusing on opportunities in the natural resources sector. Whilst the Group has traded in numerous equity and derivative investments in order to enhance shareholder value, its primary investment has been in the combination of equity and derivative instruments that Obtala held in Kopane Diamonds Developments plc ("Kopane"). Kopane was acquired by Firestone Diamonds Plc under an all share offer in the second half of 2010. Obtala disposed of its entire remaining interests in this investment generating cash proceeds of £2.8 million during the year. Overall, Obtala realised a profit of £4.4 million on this investment, of which £5.7 million arose in 2009 inclusive of some unrealised gains which reversed in the current year to realise a loss in 2010 of £1.3 million. Gains of £0.8 million on other equity and derivative holdings, reduced the reported loss on investing activities in the year to £0.5 million (2009: gain £5.7 million).

Paragon

Obtala successfully completed the Initial Public Offering of its diamond business during the year which saw the Group's wholly owned subsidiary, Sierra Leone Hard Rock Limited, combined with African Rock Resources Limited to create a new AIM listed group under the name of Paragon Diamonds Limited. At the same time Paragon raised gross funds of £3.8 million by way of issuing approximately 17 per cent. of its enlarged issued share capital. Obtala held 61.3 per cent. of Paragon at the year end with a consolidated net asset value of £9 million after deduction of minority interests. The market value of this stake at that date was approximately £24 million.

Since listing, Paragon has successfully completed the acquisition of a 98.5 per cent. interest in IDC in two tranches, the first being in December 2010 which was settled by issuing 23,397,894 new ordinary shares in Paragon equivalent to £5.7 million. The second was in May 2011 and was settled by issuing 36,607,705 new ordinary shares in Paragon equivalent to £12.1 million.

IDC holds the Lemphane Prospecting Licence which covers a known kimberlite pipe in the world renowned diamondiferous region of the Kingdom of Lesotho. The Lemphane Prospecting Licence lies within the Botha-Buthe district of northern Lesotho, 29 km west of the Letseng Diamond Mine and 5 km north west of the Liqhobong Deposit. In addition, IDC holds the Kabale licence in Zambia, which is deemed prospective for kimberlites.

Greenhills (subsequent to year end)

In February 2011 Obtala agreed to purchase a 50 per cent. interest in Greenhills Resources Limited ("Greenhills") for US$4 million, with payments staggered over 12 months and funds being initially utilised to develop tin production in 2012. Completion is conditional on satisfactory due diligence by Obtala and is expected to take place by Q3 2011.

Through the acquisition, Obtala will receive a 37 per cent. interest in the underlying Mokopane Tin Project, located in one of South Africa's most important historical tin fields, Zaaiplaats, lying within the northern limb of the Bushveld Complex of South Africa. The project already has 3,400 tonnes of near-surface open pittable tin identified by Greenhills in one of five target areas identified to date with significant scope to increase to 20,000 tonnes of open pittable tin. The immediate objective is to define a resource in excess of 10,000 tonnes of contained tin within the Mokopane Tin Project.

Bushveld (subsequent to year end)

In March 2011 the Group agreed to purchase a 50 per cent. interest in the issued share capital of Bushveld Resources Limited ("Bushveld") for consideration of US$500,000 in cash and 11,949,378 new ordinary shares in Obtala. Completion is conditional on satisfactory renewal of the underlying prospecting licences and is expected to take place by Q3 2011.

This acquisition will give the Group interests of 32 per cent. and 34 per cent. respectively in Bushveld's subsidiaries that hold the licences which comprise the Mokopane Iron Ore Project, which covers 7,409 hectares in South Africa. Mokopane has an estimated potential for approximately 2 billion tonnes of iron ore within a magnetite hosted deposit which also hosts some titanium and vanadium resource. The deposit is located in close proximity to the world's largest open pit platinum mine and associated infrastructure.

Directorate changes

The Obtala Board has been strengthened during the year with the addition of Lord St John of Bletso on 17 May 2010 and James Ede-Golightly on 14 September 2010, both as Non-executive Directors. I would like to take this opportunity to welcome them to the Board and thank them for their contributions to date.

Outlook

The year to 31 December 2010 was one of considerable development for Obtala and it is already evident that 2011 will be another eventful year for the Group. I look forward to the rest of 2011 with confidence as we rapidly develop our existing and newly acquired assets whilst also assessing any potential future opportunities. I am particularly optimistic that the Group will be able to report significant progress in exploiting its Mokopane Iron and Tin projects as well as development of Paragon's Lemphane Kimberlite project in Lesotho.

The Group benefits from a strong balance sheet with cash balances of £8.8 million at 31 December 2010, which together with the subsequent fundraisings in early 2011of £6 million in Obtala and £2.9 million in Paragon, leaves it well placed to build businesses with great potential and generate further value for shareholders.

Finally I would thank my colleagues and our employees for all their hard work throughout the year and look forward to a successful and eventful 2011.

Francesco Scolaro
Executive Chairman

16 June 2011

Business Review

Tanzania

During the year Obtala continued to conduct geological prospecting over its portfolio of assets in Tanzania. Work undertaken during 2010 included geochemical analysis (soil, stream and rock-chip), geological mapping and ground based geophysics. The projects on which prospecting was initiated ranged from gold, base metal and iron ore. The assets investigated are early stage and are still being assessed with a view to future work programmes.

Paragon Diamonds

Paragon Diamonds, which listed on AIM in November 2010, was spun out of Obtala into a dedicated diamonds exploration and production company with a diamond specific Board of Directors appointed. Paragon has assets in Sierra Leone, Tanzania, Lesotho and Zambia, which include a producing alluvial mine as well as kimberlite exploration territory. We view the rest of 2011 with considerable optimism, as the ongoing recovery of the international diamond markets continues. This together with foreseeable production bottlenecks in the medium-to-long term as mature established mines pass their peak production, suggests this is an exciting time to be evaluating and developing major kimberlites.

One of the more exciting assets is Lemphane in Lesotho, a known diamondiferous kimberlite of 6 ha surface area with previous artisanal production and which lies centrally within a cluster of major kimberlites, all of which are at an advanced development stage, including the Kao kimberlite (19.8 ha surface area and notionally 4-15 carats per hundred tonnes (“cpht”) at a previously estimated value of US$ 150 per carat), the Liqhobong kimberlite (two pipes of 8.6 ha and 1.0 ha and between 34-68 cpht and US$ 40-86 per carat) and the Mothae kimberlite (8.8 ha and 5 cpht and US$ 550 per carat). In addition, the nearby Letšeng kimberlite, in intermittent production since 1977, yields some of the world’s largest and most valuable diamonds, at an average value exceeding US$ 1,500 per carat.

Greenhills Resources

In February 2011 Obtala announced that it had entered into an agreement to acquire a 50 per cent. interest in Greenhills Resources Limited, a private South African based junior exploration and mining company focused on developing a portfolio of mineable tin resources in Africa. Through this vehicle Obtala holds a 37 per cent. interest in the underlying Mokopane Tin Project, with the balance held by Greenhills and its Black Empowerment Partners. The consideration was US$4 million in staggered payment with funds being initially utilised to develop tin production in the first half of 2012.

Greenhills’ anchor asset, the Mokopane Tin Project, comprises five prospective targets contained in two new-order prospecting licences covering a total of approximately 7,500 hectares. The project is located on the northern limb of the world renowned Bushveld Igneous Complex, approximately 200 km north of Johannesburg. The deposit lies less than 15 km from the world’s largest opencast platinum mine and associated mining infrastructure.

An initial resource of 3,400 tonnes of contained tin (“Sn”) from 2.65 million tonnes of ore (average grade of 0.13 per cent. Sn) over an average width of 18 metres has been confirmed from the existing historical drill data on one of the five targets. The immediate objective is to define a resource in excess of 10,000 tonnes of contained tin for the Mokopane Tin Project, which is located in the old historic Zaaiplaats tin mining district, one of South Africa’s most important historical tin fields (with approximately 130,000 tonnes Sn produced between 1905 and 1994). The Mokopane Tin Portfolio covers much of this old tin mining district. Currently the company is undertaking a programme of shallow drilling to confirm the old drill data, upgrade the existing resource and provide data to plan a detailed resource drilling campaign to start later in 2011.

Market fundamentals for tin are extremely favourable with record high tin prices (US$32,000 per tonne) projected to be sustained for more than two years (based on London Metal Exchange projections). Supply constraints are pushing prices higher with no significant new mine developments on the immediate horizon. Markets are dictated to by producers, mainly China and Indonesia, coupled with a significant increase in demand for electronic goods and depleting stock piles in LME inventories.

The quality of the asset and the high calibre and proven track record of the management team, together with the outlook for the tin markets combine to make this a rewarding investment for Obtala and we look forward to advancing this project with our South African partners. The objective is to prove up additional resources and look to initiating small scale production in 2012.

Bushveld Resources

In March 2011 Obtala announced that it has agreed to acquire a 50 per cent. interest in the issued share capital of Bushveld Resources Limited through Obtala's wholly owned subsidiary Bendell Enterprises Ltd. Consideration is to be satisfied by US$500,000 in cash and the issue of 11,949,378 new ordinary shares in the Company. Through this vehicle Obtala has agreed to acquire interests of 32 per cent. and 34.25 per cent. in the underlying two subsidiaries that hold the licences over the Mokopane Iron Ore Project, with the balance of the shareholding held by Bushveld Resources and its Black Empowerment Partners.

Bushveld is exploring a new, potentially world-class magnetite-hosted iron ore deposit in the Limpopo Province, South Africa, which has the potential for hosting in excess of 2 billion tonnes of iron ore. The Mokopane iron ore portfolio comprises two prospecting licences covering a total of approximately 7,409 hectares (74.09 km^2). The project is located approximately 60 km from Polokwane and is in close proximity to several large scale mining operations and associated mining infrastructure.

The main resource is contained within two outcropping magnetite layers. These two distinct magnetite layers, 8m and 70m thick respectively, are amenable to opencast mining, initially along a consistent identified strike length in excess of 10 km. The Lower Layer is comparable to the Main Magnetite Layer mined within the Bushveld Complex for vanadium and iron, although at Mokopane the layer is 8m thick compared to the average thickness of 2m as found in layers within the Bushveld Complex. Average vanadium (V_2O_5) contents range from 0.9 per cent. to 1.4 per cent. Crushing and milling procedures are expected to be similar to those used by other producers operating in the region, where pyro-metallurgical treatment of ore to produce V_2O_5 and in some cases pig iron is already being undertaken. The Upper Layer is primarily a magnetite iron ore resource with titanium (~9.55 per cent. TiO_2) and lesser amounts of vanadium (~0.09 per cent. V_2O_5). This layer is exceptionally thick at an average thickness of 70m, with a weathered zone down to +/-20m, which is more amenable to metallurgical treatment without the need for fine milling.

The company is undertaking a short programme of drilling with the objective of confirming the old drill data and upgrading the existing resource. This work will form the platform for a detailed resource drilling campaign to start later in 2011.

We are very confident that in the near term this project will grow into a world class asset. The Mokopane Iron Ore deposit is located in one of the most advanced mining regions in the world with the potential for over two billion tonnes of magnetite resource already identified to date. Obtala sees the Mokopane project as having the potential to become a significant iron mine that can deliver its end products to customers from within a country that already has an advanced infrastructure framework established for the natural resource industry.

Montara

In April 2011 Montara Continental Ltd ("Montara"), in which Obtala holds a controlling 75 per cent. shareholding, concluded a Joint Venture ("JV") with its partner in Tanzania to begin farming both food and energy crops in southern Tanzania. The land under consideration covers 20,000 hectares, with Montara holding 70 per cent. stake in the joint venture and the local partners having a 30 per cent. carried interest. Montara will manage, fund and operate the JV company with title deeds issued as leasehold over 99 years. Trial farming to optimise crops will take place in 2011.

Montara is primarily focused on developing crops to meet growing world food demand. The Lutakira farm will initially grow versatile crops such as groundnuts and sunflower, both of which can be converted to use as a fuel. Over the past year prices for these commodities have increased by almost 50 per cent. due to tight supplies and rising demand from developing countries. It is our intention to speed up our sizeable agriculture division strategy so as to benefit from the productivity of these two crops which offer two yields per annum, thereby increasing this annual revenue stream within the Group. In addition to processing food for both domestic and international export, Montara will look to work with local farmers in improving their productivity and to act as a conduit for local farmers to new markets through its facilities. Through this strategy Montara looks to rapidly secure significant bulk export food contracts to regions such as China and India and ensure neighbouring farms are key stakeholders in such activity.

Business Review

Argentina

In October 2010 Obtala announced that it had acquired an 80 per cent. interest in a lithium brine exploration project covering an area of 33,917 hectares in the Puna region of north west Argentina through its subsidiary Renholn Holdings Inc ("Renholn"). Historic data from the region shows that locally the salars or salt pans have high lithium concentrations of up to 700 milligrams per litre ("mg/l"), with two of the world's largest lithium producers located within 30 km and 130 km respectively of the projects. The objective is to identify a resource that will allow for the development of a surface plant with low capital expenditure, which can produce lithium for significantly higher margins than equivalent hard rock resources.

Conclusion

I am confident and optimistic that 2011 will prove to be an exciting year for Obtala. We are expecting positive data to come out of the tin and iron ore projects in South Africa and it is our intention that these assets are separately listed on AIM. There are a number of other global opportunities that we are evaluating and we will continue to grow and develop our corporate strategy of making strategic investments supported by ground-based evaluation of mineral assets. We believe that the recent investments in Greenhills and Bushvelds' assets and their highly professional management teams will be transformational for Obtala and its shareholders. We remain debt free and look forward to further developing our relationship with our partners going forward and building stronger relationships in the countries in which we operate.

Simon Rollason
Managing Director

16 June 2011

Directors' Report

The Directors submit their report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 December 2010.

REORGANISATION INTO AN INTERNATIONAL GROUP

During the year, Obtala successfully completed its re-organisation into an international Group in line with the increasing international profile of its portfolio businesses and shareholder base. Under the re-organisation, the former parent company became a wholly owned subsidiary of a new Guernsey holding company, Obtala Resources Limited, which was admitted to AIM on 16 September 2010. The business operation, assets and liabilities of the Obtala Group under the new Guernsey holding company immediately after the re-organisation were no different from those immediately before the re-organisation.

The above combination has been accounted for as a re-organisation using the pooling of interests method of accounting under which the Group's activity has been treated as a continuation of that of the legal subsidiary, Obtala Services Limited and its subsidiaries. Comparative numbers presented in the Group financial statements are those reported in the Group financial statements issued in the name of the legal subsidiary, Obtala Services Limited (formerly Obtala Resources plc), for the year to 31 December 2009.

PRINCIPAL ACTIVITIES AND CORPORATE DEVELOPMENT

The principal activities of Obtala Resources Limited are the acquisition and exploration of mineral resource licences, the exploration and development of mineral projects and investment in other mineral exploration and development companies. These activities are undertaken through both the Company and its subsidiaries. The Company is listed on AIM and is incorporated and domiciled in Guernsey.

Details of all of the Group's subsidiary companies held at 31 December 2010 are given in note 10 of the financial statements. The principal subsidiary companies comprise:

Undertaking	Sector
Obtala Services Limited	Professional & administration services
Mindex Invest Ltd	Resources
Obtala Resources (T) Limited	Resources
Uragold (T) Ltd	Resources
Montara Continental Limited	Agriculture
Montara Forest Limited	Forestry
Paragon Diamonds Limited	Resources
Sierra Leone Hard Rock Limited	Mining
Renholn Holdings Inc	Resources

Obtala Services Limited provides accountancy, legal and administrative services to other Group companies.

BUSINESS REVIEW

A review of the Group's performance and future prospects is included in the Chairman's statement on pages 2 and 3, and in the Business Review on pages 4 to 6.

Directors' Report

KEY PERFORMANCE INDICATORS

Key performance indicators are set out below:

	2010 £000	2009 £000
Net assets	44,121	30,338
(Loss)/profit before taxation	(6,251)	3,302
Cash and cash equivalents	8,825	5,010
Exploration activities:		
– Purchases of mining licences	2,683	217
– Expenditure on exploration and evaluation	510	585
Corporate investing activities:		
– Fair value of financial investment assets	180	5,133
– (Loss)/gain on corporate investing activities in the year	(535)	5,691

RESULTS AND DIVIDENDS

The consolidated trading loss for the year after taxation was £5,756,000 (2009: profit £1,825,000).

The Directors do not recommend payment of an ordinary dividend.

SHARE CAPITAL AND FUNDING

Full details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 23. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

The Company has unlimited authorised share capital divided into ordinary shares of 1p each, of which 224,079,974 had been issued as at the reporting date.

POST BALANCE SHEET EVENTS

On 27 January 2011 Paragon Diamonds completed a placing of 8,500,000 new ordinary shares at a price of 34p per share raising gross proceeds of £2.9 million.

On 20 April 2011 Paragon Diamonds agreed to purchase a further 54.2 per cent. interest in international Diamond Consultants Limited for £12.1 million. The consideration was satisfied by issuing 35,670,705 new ordinary shares in Paragon Diamonds at a price of 34 pence per share.

On 23 February 2011 the Company agreed to acquire a 50 per cent. interest in Greenhills Resources Limited for US$4 million. Greenhills Resources Limited is a Sub-Saharan African focussed mining group with tin projects in South Africa. The interest gives Obtala a 37 per cent. interest in the underlying Mokopane Tin Project.

On 6 March 2011 the Company agreed to acquire a 50 per cent. interest in Bushveld Resources Limited for consideration of US$0.5 million in cash and 11,949,378 new ordinary shares in the Company. Bushveld Resources Limited is a Sub-Saharan African focussed mining group with iron ore projects in South Africa. The interest gives Obtala a 32 per cent. and 34 per cent. interest in the underlying subsidiaries which hold the Mokopane iron ore project.

On 6 March 2011 the Company raised £6 million by way of issuing 12,000,000 new ordinary shares in the Company at a price of 50 pence per share.

DIRECTORS

The Directors, who served throughout the year except as noted, were as follows:

Francesco Scolaro		*(Executive Chairman)*
Simon Rollason		*(Managing Director)*
Michael Bretherton		*(Finance Director)*
Nicholas Clarke		*(Non-executive Director)*
James Ede-Golightly	*(appointed 14 September 2010)*	*(Non-executive Director)*
Lord St John of Bletso	*(appointed 17 May 2010)*	*(Non-executive Director)*

Directors' interests

Directors' interests in the shares of the Company, including family interests at 31 December were:

Shareholdings	**Ordinary shares of 1p each 2010**	**Ordinary shares of 1p each 2009**
Francesco Scolaro*	1,850,000	300,000
Simon Rollason	160,000	160,000
Michael Bretherton	300,000	300,000
Nicholas Clarke	–	–
James Ede-Golightly	–	–
Lord St John of Bletso	–	–

* In addition Grandinex International Corp, a company in which Francesco Scolaro holds a controlling interest, holds 70,000,000 shares in the Company.

Options

The following Directors held share options at 31 December:

	Number of share options 2010	**Average exercise price (p) 2010**	**Number of share options 2009**	**Average exercise price (p) 2009**
Simon Rollason	500,000	37.6	1,000,000	37.6
Nicholas Clarke	150,000	37.6	150,000	37.6

The share options held by the Directors were all granted in 2008. 500,000 Directors' options were cancelled or lapsed in the year. The options vest over a period of 1 to 2 years. The share price of the Company at 31 December 2010 was 43.25 pence. The highest and lowest share prices in the period were 45.25 pence and 18.25 pence respectively. The terms of the options are detailed in note 28.

Jointly owned shares

The following Directors held an interest in jointly owned shares at 31 December:

	Number of shares 2010	**Average purchase price (p) 2010**
Simon Rollason	500,000	33.0
Michael Bretherton	500,000	33.0
Nicholas Clarke	500,000	33.0
Lord St John of Bletso	250,000	33.0

Directors' Report

The Obtala Resources Employee Share Trust ("the Trust") was established with Marlborough Trust Company Limited appointed as trustee ("the Trustee") to enable the Trustee to acquire ordinary shares in the Company and to make interests in those shares available for the benefit of current and future employees of the Company and its subsidiaries.

Certain Directors as well as employees have an interest in ordinary shares in the Company which were acquired jointly with the Trustee by way of subscription on 24 May 2010 at a price of 33p per share. The shares were acquired pursuant to certain vesting criteria set out in the Joint Ownership Agreement. Subject to the vesting criteria being met, most of any future increase in the value of the shares will accrue to the Directors and employees, by way of receipt of a proportionate number of wholly owned shares or, at the option of the Trustee, an alternative realisation mechanism for an equivalent amount. The consequence of these conditions is that in most instances the Directors or employees will only be able to benefit from an increase in the value of the shares in two equal tranches on or after each of the two consecutive annual anniversaries of purchase and provided that the Directors and employees have not ceased employment with the Group on or before the date that these conditions are met. Details of all jointly owned shares held by the trust are set out in note 28 to the financial statements.

Directors' indemnity insurance

The Group has maintained insurance throughout the year for its Directors and Officers against the consequences of actions brought against them in relation to their duties for the Group.

Directors' remuneration

The remuneration of the individual Directors who served in the year to 31 December 2010 was:

	Salary & fees £000	**Benefits £000**	**Total 2010 £000**	**Total 2009 £000**
Francesco Scolaro	108	92	200	53
Simon Rollason	155	4	159	159
Michael Bretherton	10	–	10	10
Nicholas Clarke	25	–	25	28
James Ede-Golightly (appointed 14 September 2010)	3	–	3	4
Lord St John of Bletso (appointed 17 May 2010)	16	–	16	–
Total	317	96	413	254

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of 3-6 months notice. In the event of early termination, the Directors' contracts provide for compensation up to a maximum of basic salary for the notice year. The current salary payable to Francesco Scolaro is £150,000 per annum (increased from £50,000 in June 2010). The current salary payable to Simon Rollason is £155,000 per annum and to Michael Bretherton is £10,000 per annum.

Non-executive Directors are employed on letters of appointment which may be terminated on not less than 3 months notice. The current basic fee payable to Nicholas Clarke, James Ede-Golightly and Lord St John of Bletso is £15,000 per annum (reduced from £25,000 in March 2011).

Relocation expenses of £92,000 were paid on behalf of Francesco Scolaro during the year.

In addition, some of the executive Directors also receive certain benefits in kind, principally private medical insurance.

Profiles of the Current Directors

Francesco Scolaro, Aged 46, Executive Chairman

Frank Scolaro is an active investor in publicly quoted companies in the resource, leisure and property sectors. Frank was Non-Executive Chairman of Regal Petroleum plc from October 2006 to November 2007, in which time he was instrumental in the successful resolution of local litigation issues in the Ukraine. Until March 2008 Frank was a Non-Executive Director of Regal Petroleum plc and in 2005 he was a Non-Executive Director of African Minerals Plc.

Simon Rollason, Bsc (Hons) Geology, MIMMM, FGS, Aged 44, Managing Director

Simon Rollason has over 20 years of international experience in mining and geological exploration having worked in Africa, the Middle East, Central Asia and the Far East with both multi-nationals and junior resources companies. He has worked on nickel, gold, copper, base metals and gemstone projects, ranging from grassroots to producing assets. He has been involved with and managed operations which have varied from exploration and evaluation projects to successful feasibility studies.

Michael Bretherton, BA, ACA, Aged 54, Finance Director

Michael Bretherton graduated in Economics from the University of Leeds and then worked as an accountant and manager with PriceWaterhouse for 7 years in both London and the Middle East. He subsequently worked for The Plessey Company Plc before being appointed Finance Director of the fully listed Bridgend Group Plc in 1988 where he held the position for 12 years. More recently, he has worked at the property and services company, Mapeley Limited as Financial Operations Director and then at the entertainment software games developer, Lionhead Studios Limited, where he helped to complete a trade sale of the business to Microsoft in March 2006. Michael is currently also a director of AIM listed ORA Capital Partners Limited.

Nicholas Clarke, Aged 57, Non-Executive Director

Nick Clarke has over 30 years of experience in the mining industry and was previously the Managing Director of Oriel Resources Plc from conception in 2004 to the ultimate sale to Mechel OAO (NYSE listed) for a total consideration of US$1.5 billion in March 2008. Currently, he is a consultant to Orsu Metals Corp. and Non-Executive Director to Caledon Resources Plc and Sunkar Resources Plc, both of which are AIM listed. Nick, as Managing Director of Wardell Armstrong International Ltd ("WAI"), developed WAI from a small consultancy into a senior minerals focused consultancy during the 1990's. Nick has also been involved in a number of equity raisings both on AIM and TSX.

James Ede-Golightly, Aged 31, Non-Executive Director

James Ede-Golightly read Economics at St John's College, Cambridge University. He subsequently worked at Merrill Lynch Investment Managers and Commerzbank as an investment analyst and professional investor. In 2006 James helped found ORA Capital Partners Limited, serving as an Executive Director until October 2009, and remains as a Non-Executive Director of the company. James is also Non-Executive Chairman of East Balkan Properties plc and Non-Executive Director of Paragon Diamonds Limited. James is a CFA Charterholder and is resident in Guernsey.

Lord St John Of Bletso, Aged 54, Non-Executive Director

Lord St John, 21st Baron of Bletso, has been an independent member of the House of Lords since 1978. He qualified as a solicitor in South Africa before completing his Masters in Chinese and Maritime Law at London University. His parliamentary interests include African Affairs, Financial Services, Environmental Protection and Information Technology. He is currently a member of the House of Lords Communications Select Committee as well as the Information Committee and was appointed an Extra Lord in Waiting to HM The Queen in 1998. He serves as a Director and Advisor to several UK Listed and Unlisted companies and worked as a Consultant to Merrill Lynch, formerly Smith New Court PLC, from 1991 to 2008. After working with Shell in South Africa, he was an oil analyst and later a specialist salesman in oil and mining stocks. Amongst his business interests, his expertise has focused on corporate governance, financial restructuring and corporate finance. He is currently Chairman and Trustee of nine charities. Lord St John holds a Bachelor of Arts and Psychology (BA BSocSc) from the University of Cape Town together with a Bachelor of Law (BProc) from the University of South Africa and a Master of Law (LLM) from London University.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

The Company is aware that the following have at 9 June 2011 an interest in three per cent. or more of the issued ordinary share capital of the Company:

Name	Number of 1p ordinary shares	Percentage of the issued share capital
Grandinex International Corp*	70,000,000	29.65
ORA (Guernsey) Limited	54,000,000	22.88
African Minerals Limited	21,170,422	8.97
State Street Nominees Limited	16,450,000	6.97
Harewood Nominees Limited	9,800,000	4.15
Credit Agricole Cheuvreux	8,115,148	3.44

* Francesco Scolaro is the controlling shareholder of Grandinex International Corp. He holds a further 1,850,000 shares in the Company through nominee companies bringing his total interest to 71,850,000 (30.44 per cent.).

CORPORATE GOVERNANCE

The Directors recognise the importance of sound corporate governance and observe the principles of the Combined Code, to the extent that they consider them to be appropriate for the Group's size.

The Board

The Board currently comprises three executive Directors and three non-executive Directors.

Audit Committee

The Board has established an audit committee with formally delegated duties and responsibilities. The audit committee comprises the non-executive Directors and currently has James Ede-Golightly as its Chairman. The committee meets no less than twice in each financial year.

Remuneration Committee

The remuneration committee meets as and when required. The remuneration committee comprises the non-executive Directors and currently has Nick Clarke as its Chairman.

The policy of the committee is to reward executive Directors in line with the current remuneration of directors in comparable businesses in order to recruit, motivate and retain high quality executives within a competitive market place.

There are three main elements of the remuneration packages for executive Directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Discretionary annual bonus to be paid in accordance with a bonus scheme developed by the remuneration committee. This takes into account individual contribution, business performance and commercial progress; and
- Discretionary share incentive scheme which takes into account the need to motivate and retain key individuals.

Nominations Committee

The Directors do not consider that, given the size of the Board, it is appropriate at this stage to have a nominations committee. However, this will be kept under regular review by the Board.

Internal Control

The Board is responsible for maintaining a sound system of internal control. The Board's measures are designed to manage, not eliminate, risk and such a system provides reasonable but not absolute assurance against material misstatement or loss.

Some key features of the internal control system are:

(i) Management accounts information, budgets, forecasts and business risk issues are regularly reviewed by the Board who meet at least 4 times per year;

(ii) The Company has operational, accounting and employment policies in place;

(iii) The Board actively identifies and evaluates the risks inherent in the business and ensures that appropriate controls and procedures are in place to manage these risks; and

(iv) There is a clearly defined organisational structure and there are well-established financial reporting and control systems.

Going Concern

Having made reasonable enquiries, the Directors are satisfied that the current cash balance is sufficient to cover all known financial liabilities for the next 12 months from the date of approval of the financial statements. The Directors have considered the guidance for directors issued by the Financial Reporting Council ("FRC") in respect of going concern. The Directors therefore confirm that they are satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

RISK MANAGEMENT

The business of exploring for minerals and metals involves a high degree of technical, political and regulatory risk. In addition, the Group is exposed to a number of financial risks which the Board seeks to minimise by adopting a prudent approach which is consistent with the corporate objectives of the Group. These risks are summarised below:

Technical Risk

Substantial expenditure is required to establish reserves and to conduct feasibility studies. Although substantial benefits may be derived from the discovery of a significant mineralised deposit, no assurance can be given that minerals will be discovered in sufficient quantities or having sufficient grade to justify commercial operations, or that funds required for development can be obtained on a timely basis.

Political and Regulatory Risk

The Group is currently conducting its operations mainly in Tanzania, Sierra Leone and South Africa. The Board believes that the Governments of these countries support the development and exploitation of natural resources. However, there is no assurance that future political and economic conditions in these countries will not result in the Governments changing their political attitudes towards mining and adopting different policies in respect of the exploration, development and ownership of mineral resources. Any such changes in policy may result in changes in laws affecting ownership of assets, land tenure and mineral licenses, taxation, environmental protection and repatriation of income and capital, which may adversely impact the Group's ability to carry out its activities.

FINANCIAL RISK

Market Risk

Price risk

The Group is exposed to market risk in respect of its equity investments and also its derivative financial instruments. The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

Interest rate risk

The Group has no external financing facilities, therefore its interest rate risk is limited to the level of interest received on its cash surpluses. Interest rate risk on cash and cash equivalents is mitigated by using fixed-rate deposit accounts.

Liquidity Risk

The Group seeks to manage liquidity by regularly reviewing cash levels and expenditure budgets to ensure that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group had net cash balances of £8.8 million as at 31 December 2010 (2009: £5.0 million).

Credit Risk

The Group's principal financial asset is cash. The credit risk associated with cash is considered to be limited. The Group generates diamond revenues from a single customer. The credit risk is considered to be minimal as no credit terms are offered and funds are received prior to the risk of ownership being transferred to the purchaser. From time to time cash is placed with certain institutions in support of trading positions. The credit risk is considered minimal as the Group only undertakes this with large institutions.

Directors' Report

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are required by the Companies (Guernsey) Law 2008 to prepare Group financial statements for each financial year in accordance with generally accepted accounting principles. Under that law they have elected to prepare Group financial statements in accordance with International Financial Reporting Standards, as adopted by the EU ("IFRS").

The Group financial statements are required by law and IFRS to give a true and fair view of the financial position and performance of the Group.

In preparing the financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRS as adopted by the EU; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of 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 Obtala website, www.obtalaresources.com

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who were in office on the date of approval of these financial statements have confirmed, that as far as they are aware, there is no relevant audit information of which the auditor is unaware. Each of the Directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITOR

Baker Tilly Channel Islands Limited was appointed auditor of the Company during the year. They have indicated their willingness to continue in office and a resolution for their re-appointment will be put to the members at the forthcoming Annual General Meeting.

On behalf of the Board

Michael Bretherton
Finance Director

16 June 2011

Independent Auditor's Report to the Members of Obtala Resources Limited

We have audited the consolidated financial statements of Obtala Resources Limited for the year ended 31 December 2010 which comprise the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, consolidated statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable Guernsey law and International Financial Reporting Standards as adopted by the European Union ("IFRS").

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and IFRS are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's 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

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRS of the state of the Group's affairs as at 31 December 2010 and of its loss for the year then ended; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law 2008, as amended.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations which to the best of our knowledge and belief are necessary for the purposes of our audit.

Baker Tilly Channel Islands Limited
Chartered Accountants
St. Helier, Jersey
16 June 2011

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Revenue		832	–
(Loss)/gain on investments	2	(535)	5,691
Distribution fee income		177	–
Mine operating costs		(836)	–
Administrative expenses		(1,815)	(824)
Depreciation	14	(319)	(28)
Share based payments	28	(233)	(66)
Impairment of intangible assets	13	(2,856)	(1,787)
OPERATING (LOSS)/PROFIT	4	(5,585)	2,986
Listing costs for subsidiary		(336)	–
Cost of re-organisation	23	(323)	–
Profit on disposal of licences		–	305
Finance income	6	11	14
Finance costs	7	(18)	(3)
(LOSS)/PROFIT BEFORE TAXATION		(6,251)	3,302
Taxation	8	495	(1,477)
(LOSS)/PROFIT FOR THE YEAR		(5,756)	1,825
Other comprehensive income:			
Exchange differences			
on translation of foreign operations		946	(2,430)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(4,810)	(605)
ATTRIBUTABLE TO:			
Owners of the parent		(4,430)	(605)
Non-controlling interests		(380)	–
		(4,810)	(605)
(LOSS)/EARNINGS PER SHARE			
Basic (pence)	9	(2.65)	0.97
Diluted (pence)	9	(2.65)	0.97

The (loss)/profit for the year arises from the Group's continuing operations.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital £000	Share premium £000	Merger reserve £000	Foreign exchange reserve £000	Share based payment reserve £000	Revenue reserve £000	Total £000	Non-controlling interests £000	Total equity £000
At 1 January 2009	1,775	2,828	16,400	7,452	23	(215)	28,263	–	28,263
Profit for the year	–	–	–	–	–	1,825	1,825	–	1,825
Other comprehensive income:									
Exchange differences on translation of foreign operations	–	–	–	(2,430)	–	–	(2,430)	–	(2,430)
Total comprehensive income for the period	–	–	–	(2,430)	–	1,825	(605)	–	(605)
Transactions with owners:									
Issue of shares	152	2,485	–	–	–	–	2,637	–	2,637
Expenses on issue of shares	–	(23)	–	–	–	–	(23)	–	(23)
Share based payment	–	–	–	–	66	–	66	–	66
At 31 December 2009	1,927	5,290	16,400	5,022	89	1,610	30,338	–	30,338
Loss for the year	–	–	–	–	–	(5,376)	(5,376)	(380)	(5,756)
Other comprehensive income:									
Exchange differences on translation of foreign operations	–	–	–	946	–	–	946	–	946
Total comprehensive income for the year	–	–	–	946	–	(5,376)	(4,430)	(380)	(4,810)
Transactions with owners:									
Issue of shares	314	6,988	–	–	–	–	7,302	–	7,302
Expenses on issue of shares	–	(4)	–	–	–	–	(4)	–	(4)
Transfer of share based payment on cancelled options	–	–	–	–	(45)	45	–	–	–
Share based payment	–	–	–	–	233	–	233	–	233
Purchase of own shares	–	–	–	–	–	(735)	(735)	–	(735)
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

Consolidated Statement of Financial Position
As at 31 December 2010

	Notes	2010 £000	2009 £000
ASSETS			
Non-current assets			
Investments in associate	17	5,927	–
Available for sale investments	17	317	–
Intangible exploration and evaluation assets	13	22,625	21,626
Property, plant and equipment	14	6,938	135
Total non-current assets		35,807	21,761
CURRENT ASSETS			
Trade and other receivables	15	498	173
Inventory	16	197	–
Financial investment assets	18	180	5,133
Cash and cash equivalents	19	8,825	5,010
Total current assets		9,700	10,316
Total assets		45,507	32,077
LIABILITIES			
Current liabilities			
Trade and other payables	20	(457)	(102)
Current tax liabilities	8	(622)	(543)
Financial investment liabilities	21	–	(160)
Total current liabilities		(1,079)	(805)
Non-current liabilities			
Site restoration provision	22	(307)	–
Deferred tax	8	–	(934)
Total non-current liabilities		(307)	(934)
Total liabilities		(1,386)	(1,739)
Net assets		44,121	30,338
EQUITY			
Share capital	23	2,241	1,927
Share premium	24	131	5,290
Merger reserve	25	28,543	16,400
Foreign exchange reserve		5,968	5,022
Share based payment reserve	28	277	89
Revenue reserve	26	1,123	1,610
Equity attributable to the owners of the parent		38,283	30,338
Non-controlling interests	29	5,838	–
Total equity		44,121	30,338

Approved by the Board and authorised for issue on 16 June 2011.

Francesco Scolaro
Executive Chairman

Michael Bretherton
Finance Director

Consolidated Statement of Cash Flows
For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
OPERATING ACTIVITIES			
Operating (loss)/profit		(5,585)	2,986
Adjustment for:			
Depreciation of plant and equipment	14	319	28
Foreign exchange (gains)/losses		(61)	19
Share based payments	28	233	66
Losses/(gains) on investments	2	535	(5,691)
Impairment of intangible assets	13	2,856	1,787
Increase in trade and other receivables	15	(325)	(136)
Increase/(decrease) in trade and other payables	20	355	(88)
Increase in inventory	16	(197)	–
Listing costs for subsidiary		(336)	–
Cost of re-organisation		(323)	–
Cash outflow from operations		(2,529)	(1,029)
Income taxes paid	8	(365)	(16)
Net cash outflow from operations		(2,894)	(1,045)
INVESTING ACTIVITIES			
Expenditure on property, plant and equipment	14	(2,431)	(94)
Expenditure on intangible exploration and evaluation assets	13	(694)	(802)
Proceeds from disposal of financial investment assets		5,754	5,137
Purchase of financial investment assets		(1,333)	(3,951)
Purchase of available for sale investments		(508)	–
Net cash inflow from investing activities		788	290
FINANCING ACTIVITIES			
Proceeds from issue of share capital	23,24	2,306	2,637
Expenses of issue of share capital	24	(4)	(23)
Funds raised by subsidiary	12	3,797	–
Expenses of issue of subsidiary shares	12	(150)	–
Finance income	6	11	14
Finance costs	7	(18)	(3)
Net cash inflow from financing activities		5,942	2,625
INCREASE IN CASH AND CASH EQUIVALENTS		3,836	1,870
Cash and cash equivalents at beginning of year		5,010	3,184
Effect of foreign exchange rate variation		(21)	(44)
Cash and cash equivalents at end of year		8,825	5,010

Notes to the Financial Statements
For the year ended 31 December 2010

1. ACCOUNTING POLICIES

BASIS OF ACCOUNTING
The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS"). The financial statements have been prepared under the historical cost convention except for financial investments and derivative trading assets and liabilities, which are included at fair value.

Obtala Resources Limited is an AIM-quoted mineral exploration and investment company. The Company is incorporated and domiciled in Guernsey.

Obtala Resources Limited was incorporated in Guernsey on 20 July 2010. The Company was specifically created to implement a re-organisation in relation to Obtala Services Limited (formerly Obtala Resources plc) which would create a greater international profile for the Group and its businesses. Under the re-organisation, Obtala Services Limited became a wholly owned subsidiary of Obtala Resources Limited on 16 September 2010.

Shareholders in Obtala Services Limited at the time of the re-organisation received shares in Obtala Resources Limited in the same proportionate interest as they had in Obtala Services Limited immediately prior to the re-organisation. The business, operations, assets and liabilities of the Obtala Group under the new Guernsey holding company immediately after the re-organisation were no different to those immediately before the re-organisation and the Directors have therefore treated this combination as a simple re-organisation using the pooling of interests method of accounting.

BASIS OF CONSOLIDATION AND RE-ORGANISATION
The consolidated financial statements incorporate those of Obtala Resources Limited and all of its subsidiary undertakings for the year.

The Company was incorporated on 20 July 2010. On 16 September 2010 the Company became a 100 per cent. holding company of Obtala Services Limited and was admitted to AIM on that date.

The above combination has been accounted for as a re-organisation using the pooling of interests method of accounting under which the Group's activity has been treated as a combination of that legal subsidiary, Obtala Services Limited and its subsidiaries. Comparative numbers presented in the Group financial statements are those reported in the Group financial statements issued in the name of the legal subsidiary, Obtala Services Limited (formerly Obtala Resources plc), for the year to 31 December 2009.

SUBSIDIARIES
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effects of potential voting rights are considered when assessing whether the Group controls the entity. Subsidiaries are fully consolidated from the date control passes.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The costs of an acquisition are measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date irrespective of the extent of any minority interest. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the identifiable net assets acquired is capitalised as goodwill and reviewed annually for impairment. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

The purchase of the entire share capital of Mindex Invest Ltd and Uragold Ltd by Obtala Limited, the purchase of Montara Continental Limited by Mindex Invest Ltd and the purchase of African Rock Resources Limited by Paragon Diamonds Limited have all been treated as purchases of assets. Assets held by the respective companies at the time of their acquisition have been recognised at cost. These transactions are outside the scope of IFRS 3 Business Combinations because the entities acquired do not meet the definition of a business at the date of acquisition.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

INTRA-GROUP TRANSACTIONS

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Subsidiaries' accounting policies are amended where necessary to ensure consistency with the policies adopted by the Group. All financial statements are made up to 31 December 2010.

SEGMENTAL REPORTING

The reportable segments are identified by the Board (which is considered to be the Chief Operating Decision Maker) by the way management has organised the Group. The Group operates within three separate operational divisions comprising production in Sierra Leone, exploration and development activities in Tanzania and investing activities in the UK and Guernsey.

The Directors review the performance of the Group based on total revenues and costs, allocated on a time basis, for these three divisions and not by any other segmental reporting.

REVENUE RECOGNITION

Revenue from the sale of diamonds is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred in respect of the transaction can be measured reliably.

Realised profits and losses on the disposal of investments is the difference between the fair value of the consideration received less any directly attributable costs on the sale and the carrying value of the investments at the start of the accounting period or acquisition date if later.

Unrealised profits and losses on the revaluation of investments is the movement in carrying value of investments between the start of the accounting period or acquisition date if later and the end of the accounting period.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Notes to the Financial Statements

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

GOING CONCERN

An assessment of going concern is made by the directors at the date the directors approve the annual financial statements, taking into account the relevant facts and circumstances at that date including:

- Review of profit and cashflow forecasts for the year ahead
- Review of anticipated revenues against forecast
- Timing of cashflows
- Any financial or operational risks

After making enquiries the directors have reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements. The directors have satisfied themselves that the Group is in a sound financial position and will be able to meet the Group's foreseeable cash requirements.

FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

Transactions and balances

In individual companies, transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the year.

In the consolidated financial statements, the assets and liabilities of subsidiaries with different functional currencies to the Company are retranslated into sterling at the rate ruling at the reporting date. The results and cash flows are retranslated into sterling using average rates of exchange. Exchange adjustments arising when the opening net assets and the results for the year are translated into sterling are taken directly to a foreign exchange reserve and reported directly in equity. Exchange gains and losses arising on long-term intragroup foreign currency loans used to finance the subsidiary undertakings, which are deemed to be part of the net investment in the subsidiary, are also taken directly to equity. On disposal of a subsidiary with a different functional currency to the Company, the deferred cumulative exchange differences recognised in equity relating to that particular operation are recognised in the income statement.

Foreign currency translation rates:

	At 31 December 2010	Annual average for 2010	At 31 December 2009	Annual average for 2009
US dollars	1.547	1.543	1.593	1.532
Tanzanian shilling	2,331	2,252	2,166	2,043

INTANGIBLE EXPLORATION AND EVALUATION ASSETS

All costs associated with mineral exploration and evaluation including the costs of acquiring prospecting licences and rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling and other activities to evaluate the technical feasibility and commercial viability of extracting a mineral resource, are capitalised as intangible exploration and evaluation assets and subsequently measured at cost. The costs are allocated to base mineral/gemstone groupings within a region (“field”), which are treated as cash-generating units (“CGUs”)/projects because the underlying geology and risks and rewards of exploration within a field are considered to be similar.

If an exploration project is successful, the related expenditures will be transferred at cost to plant and equipment and amortised over the estimated life of the commercial ore reserves on a unit of production basis.

Where a project does not lead to the discovery of commercially viable quantities of mineral resources and is relinquished, abandoned, or is considered to be of no further commercial value to the Group, the related costs are written off to the income statement.

The recoverability of deferred exploration costs is dependent upon the discovery of economically viable ore reserves and the ability of the Group to obtain necessary financing to complete the development of ore reserves and future profitable production from the extraction thereof.

PROPERTY, PLANT AND EQUIPMENT AND MINE PROPERTIES

Property, plant and equipment and mine assets are stated at historical cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on all plant and equipment assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:

Mine	over the life of the mine
Mining equipment	over 2–5 years
Camp buildings	over 5 years
Motor vehicles	over 3 years
Fixtures and equipment	over 3 years
Computer and IT equipment	over 3 years

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

The unit-of-production rate for the depreciation/amortisation of mine development costs takes into account expenditures incurred to date.

The estimated useful lives, residual values and depreciation method are reviewed at each period end, with the effect of any changes in estimate accounted for on a prospective basis.

LAND AND BUILDINGS

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Depreciation is recognised so as to write off the cost of the assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. For leasehold land and buildings, the useful life is the period of the lease. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land is not depreciated.

IMPAIRMENT OF EXPLORATION AND EVALUATION ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, an asset is reviewed for impairment. An asset’s carrying value is written down to its estimated recoverable amount (being the higher of the fair value less costs to sell and value in use) if that is less than the asset’s carrying value. Impairment losses are recognised in the income statement immediately.

Notes to the Financial Statements

Impairment reviews for intangible exploration and evaluation assets are carried out on the basis of mineral/gemstone fields with each field representing a single CGU. An impairment review is undertaken when indicators of impairment arise but typically when one of the following circumstances applies:

- unexpected geological occurrences that render the resources uneconomic;
- title to the asset is compromised;
- variations in mineral/gemstones prices that render the project uneconomic;
- variations in the foreign currency rates; and
- the Group determines that it no longer wishes to continue to evaluate or develop the field.

FINANCIAL ASSETS AND LIABILITIES
The Group classifies its financial assets and liabilities as follows:

Trade and other receivables
Trade and other receivables do not carry any interest and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment.

Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

Financial assets at fair value through the profit or loss (“FVTPL”)
Financial assets are classified at fair value through profit or loss when either they are held for trading or when they are initially designated at fair value through the profit or loss.

The fair value is derived from the closing bid-market price at the reporting date. Gains and losses arising from changes in fair value are recognised directly in the income statement.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

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

Derivative financial assets and liabilities
Purchases and sales of derivative financial instruments are recognised at the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument. The Group only trades in derivative financial instruments that are quoted in active markets and the related financial assets and liabilities are stated at fair values based on the contracted actual costs and the quoted market prices of those instruments. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

Trade and other payables
Trade and other payables are not interest bearing and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents
Cash and cash equivalents comprise cash at hand and deposits on a term of not greater than 3 months.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax from proceeds.

SHARE BASED PAYMENTS
Share options
The share option programme entitles certain employees and Directors to acquire shares of the Company. These options are granted by 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 during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes valuation model, taking into account the terms and conditions under which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

Employee share trust
Where an employee acquires an interest in shares in the Company jointly with the Obtala Resources Employee Share Trust, the fair value benefit at the purchase date is recognised as an expense, with a corresponding increase to the share based payment reserve within equity on a straight-line basis, over the period to the earliest date on which the employee becomes entitled to benefit from a realisation mechanism.

The fair value benefit is measured using a Black Scholes valuation model, taking into account the terms and conditions upon which the jointly owned shares were purchased.

The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, sale restrictions, and behavioural considerations.

LEASES
Leases where the lessor retains substantially all of the risks and rewards of ownership are classified as operating leases and the rentals payments are charged to the income statement on a straight-line basis over the lease term.

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

PENSION COSTS
Contributions by the Group to personal pension schemes are charged to the income statement on a straight-line basis as they become due.

Notes to the Financial Statements

TAXATION

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax payable is based on taxable profit for the year. The Company's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon rates enacted and substantively enacted at the reporting date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

CRITICAL ACCOUNTING ESTIMATES AND AREAS OF JUDGEMENT

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets, liabilities, revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and based on management's historical experience and other factors, including future expectations and events that are believed to be reasonable. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results of the Group in future reporting periods are discussed below.

Site restoration provision

Provisions for long-term environmental obligations are based on estimates of costs of compliance with current environmental and regulatory requirements. Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date. The estimated cost of rehabilitation is reviewed annually and adjusted as appropriate for changes in legislation or technology. As at 31 December 2010 the Group's site restoration provision was £307,000 (2009: £nil).

Impairment of assets

The Group is required to perform an impairment review, for each CGU, when facts and circumstances suggest that the carrying amount of the assets may exceed its recoverable amount. The recoverable amount is based upon the Directors' judgements and is dependent upon the discovery of economically recoverable ore reserves, the ability of the Group to obtain necessary financing to complete development until the technical feasibility and commercial viability of extracting a mineral resource becomes demonstrable, at which point the value is estimated based upon the present value of the discounted future cash flows. An impairment charge of £2,856,000 (2009: £1,787,000) was recognised in the year.

Resource estimates

Estimates are made of the amount of diamonds that can be economically and legally extracted from the Group's mining properties. The Group estimates its mineral resources, based on information compiled by appropriately qualified persons including geological data on the size, depth and shape of the gravel beds and requires geological judgements to interpret the data. The estimation of recoverable resources is based upon factors such as estimates of the volume of gravel within the licence areas along with geological assumptions and judgements made in estimating the size and grade of the diamonds that are recoverable. Changes in the resource estimates may impact upon the carrying value of exploration and evaluation assets, mine properties, property, plant and equipment and depreciation and amortisation charges.

ACCOUNTING STANDARDS AND INTERPRETATIONS NOT APPLIED

At the date of authorisation of these financial statements, the following standards and interpretations relevant to the Group that have not been applied in these financial statements were in issue but not yet effective or endorsed (unless otherwise stated):

		Effective date
IFRS 7	Financial Instruments: Disclosures (amendments)	1 July 2011
IFRS 9	Financial Instruments	1 January 2013
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
IAS 12	Income Taxes (amendments)	1 January 2012
IAS 24*	Related Party Transactions (revised)	1 January 2011
IFRIC 19*	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

* endorsed by the EU.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. No standard or Interpretation adopted in the year had any material impact on the financial statements of the Group.

2. (LOSSES)/GAINS ON INVESTMENTS

Group	2010 £000	2009 £000
(Loss)/gain on disposal of investments	(633)	2,357
Increase in fair value of financial investment assets	98	3,334
(Loss)/gain on investments	(535)	5,691

Notes to the Financial Statements

3. SEGMENTAL REPORTING

Segmental information is presented on the basis of the information provided to the chief operating decision maker ("CODM"), which is the board of directors.

The Group is currently in the process of production of diamonds in Sierra Leone as well as exploration and development of mineral projects, primarily located in Tanzania. In addition, the Group undertakes investing activities, which are now based principally in Guernsey.

The Group's primary reporting segments are geographical operating segments, being Sierra Leone and Tanzania together with investing activities undertaken in Guernsey and previously also the UK.

The following table shows the segment analysis of the Group's profit before tax for the year and net assets at 31 December 2010:

	Production – Sierra Leone £000	Exploration and development – Tanzania £000	Investing activities £000	Intra-group elimination £000	Total £000
Income statement					
Revenue	832	–	–	–	832
Losses on investments	–	–	(535)	–	(535)
Distribution fee income	177	–	–	–	177
Management charges	–	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 operating loss before interest	(12)	(2,565)	(3,667)	–	(6,244)
Finance income	–	–	11	–	11
Finance costs	(18)	–	–	–	(18)
Loss before tax	(30)	(2,565)	(3,656)		(6,251)
Taxation					495
Loss after tax					(5,756)
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:					
Property, plant and equipment	7,216	–	–	–	7,216
Intangible exploration and evaluation assets	–	3,193	–	–	3,193

All the revenue generated in the year was from one customer. At the reporting date, the Group had an exclusive distribution agreement with this customer.

The following table shows the segment analysis of the Group's profit before tax for the prior year and net assets at 31 December 2009:

	Tanzania £000	Investing activities £000	Intra-group elimination £000	Total £000
Income statement				
Gains on investments	168	5,523	–	5,691
Management charges	594	–	(594)	–
Administrative expenses	(614)	(898)	594	(918)
Impairment of intangible assets	(1,787)	–	–	(1,787)
Segment operating (loss)/profit before interest	(1,639)	4,625	–	2,986
Profit on disposal of licences	305	–	–	305
Finance income	–	14	–	14
Finance expense	–	(3)	–	(3)
(Loss)/profit before tax	(1,334)	4,636	–	3,302
Taxation				(1,477)
Profit after tax				1,825
Net assets				
Assets	23,698	12,356	(3,977)	32,077
Liabilities:				
Current tax liability	(177)	(366)	–	(543)
Deferred tax liability	–	(934)	–	(934)
Other	(3,996)	(243)	3,977	(262)
Net assets	19,525	10,813	–	30,338
Other segment items				
Depreciation	(18)	(10)	–	(28)
Capital expenditure:				
Property, plant and equipment	87	7	–	94
Intangible exploration and evaluation assets	802	–	–	802

Notes to the Financial Statements

4. OPERATING (LOSS)/PROFIT

	2010 £000	2009 £000
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation of plant and equipment	319	28
Staff costs (see note 5)	1,211	583
Professional and regulatory fees	315	128
Impairment of intangible assets (see note 13)	2,856	1,787
Foreign exchange (gain)/loss on operating activities	(61)	44
Share based payments	233	66
Operating lease rentals:		
Land and buildings	28	52
Auditor's remuneration:		
Audit services		
– fees payable to the Company auditor for the audit of the parent and consolidated accounts	35	30
Fees payable to associates of the Company auditor for other services		
– auditing the accounts of subsidiaries pursuant to legislation	5	5

5. STAFF COSTS

	2010 Number	2009 Number
The average monthly number of persons (including directors) employed by the Group during the year was:		
Administration and management	29	19
Mining	139	–
	168	19

	£000	£000
The aggregate remuneration comprised:		
Wages and salaries	897	441
Social security costs	81	64
Pension contributions	–	12
Share based payments	233	66
	1,211	583
Directors remuneration included in the aggregate remuneration above comprised:		
Emoluments for qualifying services	409	277

Included above are emoluments of £200,000 (2009: £159,000) in respect of the highest paid director.

No pension contributions were made on behalf of the Directors.

6. FINANCE INCOME

	2010 £000	2009 £000
Bank interest receivable	11	14

7. FINANCE COSTS

	2010 £000	2009 £000
Hire purchase interest payable	–	3
Bank interest	18	–

8. TAXATION

	2010 £000	2009 £000
Current tax:		
Corporation tax on loss/profit for the year	502	488
Adjustments in respect of prior period	(63)	55
Deferred tax:		
Origination and reversal of temporary differences	(934)	934
Tax on loss/profit on ordinary activities	(495)	1,477
Factors affecting tax charge for the year:		
Guernsey (Country of domicile)		
The tax assessed for the year varies from the standard rate of corporation tax as explained below:		
Loss on ordinary activities before tax	(277)	–
Loss on ordinary activities multiplied by the average rate of corporation tax of nil	–	–
Guernsey tax charge for the year	–	–
UK		
The tax assessed for the year varies from the standard rate of corporation tax as explained below:		
(Loss)/profit on ordinary activities before tax	(5,974)	3,302
(Loss)/profit on ordinary activities multiplied by the average rate of corporation tax of 28% (2009: 29.6%)	(1,673)	925
Effects of:		
Expenses not deductible for tax purposes	1,241	522
Utilised tax losses from prior year	–	(25)
Adjustments in respect of prior period	(63)	55
UK tax (credit)/charge for the year	(495)	1,477

The Group has estimated losses of £30 million available for carry forward against future profit generated in Sierra Leone (2009: £97,000). No deferred tax asset has been recognised in respect of the losses due to the unpredictability of future profit streams. Unused tax losses may be carried forward for ten years.

The movement in the year in the Group's net deferred tax position was as follows:

Deferred tax liabilities	2010 £000	2009 £000
At 1 January	934	–
(Credit)/charge to income for the year	(934)	934
At 31 December	–	934

The deferred tax liability related to unrealised gains generated on the Company's investment in Kopane and became due as the gain on investment was realised.

Notes to the Financial Statements

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the loss/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year excluding own shares held jointly by the Obtala Resources Employee Share Trust, "The Trust", and certain employees.

Dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year to assume conversion of all dilutive potential ordinary shares, being share options and the shares held by the Trust and certain employees.

	2010 £000	2009 £000
(Loss)/profit for the year:	(5,756)	1,825
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in issue during the year	218,446,486	188,540,107
Less: weighted average number of own shares held during the year	(1,337,671)	–
Weighted average number of ordinary shares used in calculating – basic earnings per share	217,108,815	188,540,107
Number of options and own shares with dilutive effects	–	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	217,108,815	188,540,107
Earnings per share		
Basic (pence)	(2.65)	0.97
Diluted (pence)	(2.65)	0.97

There is no dilutive effect of options and own shares due to the Group's loss for the year.

10. INVESTMENTS IN SUBSIDIARIES

At 31 December 2010 the Company has investments in subsidiaries where it held 50 per cent. or more of the issued ordinary share capital of the following companies:

Undertaking	Sector	Country of incorporation	% of issued ordinary share capital and voting rights
Obtala Limited[1]	Holding Company	England & Wales	100.0
Obtala Services Limited[1]	Service Company	England & Wales	100.0
Obtala Resources (T) Limited[2]	Resources	Tanzania	100.0
Mindex Invest Ltd.[2]	Resources	British Virgin Islands	100.0
Uragold Ltd.[2]	Holding Company	England & Wales	100.0
Uragold (T) Ltd[4]	Resources	Tanzania	75.0
Montara Continental Limited[3]	Resources	Seychelles	60.0
Montara Mozambique Limitada[5]	Dormant	Mozambique	58.5
Montara Forest Limited[5]	Dormant	Mozambique	58.5
Renholn Holdings Inc[3]	Resources	British Virgin Islands	80.0
Paragon Diamonds Limited[1]	Holding Company	Guernsey	61.3
Sierra Leone Hard Rock Limited[6]	Holding Company	Bermuda	61.3
Sierra Leone Hard Rock (SL) Limited[6]	Resources	Sierra Leone	61.3
African Rock Resources Limited[6]	Resources	England & Wales	61.3
ARR (Tanzania) Limited[6]	Resources	Tanzania	61.3
Gemstones of Africa Limited[6]	Dormant	England & Wales	82.9

[1] Held directly by the Company.

[2] Held by Obtala Limited.

[3] Held by Mindex Invest Ltd.

[4] Held by Uragold Ltd.

[5] Held by Montara Continental Limited.

[6] Held by Paragon Diamonds Limited.

Obtala Limited and Uragold Ltd. operate wholly or mainly in England & Wales; Mindex Invest Ltd., Obtala Resources (T) Limited, Uragold (T) Ltd., Montara Continental Limited, Montara Forest Limited and Montara Mozambique Limitada operate wholly or mainly in Tanzania.

All of the subsidiaries are included in the consolidated financial statements.

11. ACQUISITION OF SUBSIDIARY UNDERTAKING

On 12 January 2010 the Group acquired the entire issued share capital of Sierra Leone Hard Rock Limited for a total consideration of £4,260,547. The consideration was settled by way of issuing 21,170,422 new ordinary shares in the Company at the market price of 20.125 pence per share. Sierra Leone Hard Rock Limited is a Bermudan incorporated company which is the parent of Sierra Leone Hard Rock (SL) Limited which holds mining licences and associated assets to undertake diamond mining activities in Sierra Leone. This transaction has been accounted for by the purchase method of accounting.

	Book value £000	Fair value £000
Net assets acquired:		
Property plant and equipment	2,602	1,963
Intangible assets	13,129	2,593
Inventory	858	–
Trade and other payables	(19)	–
End of service benefit provision	(11)	–
Site restoration provision	(295)	(295)
Deferred tax liability	(3,358)	–
	12,906	4,261
Consideration satisfied by:		
Issue of new shares		4,261

The fair value of shares issued was 20.125 per share, being the price at which the Company's shares were issued.

Sierra Leone Hard Rock Limited contributed £832,000 to revenue and £30,000 to loss before tax for the period between the date of acquisition and the reporting date. As the acquisition took place in close proximity to the beginning of the reporting period, had this transaction occurred at the beginning of the reporting period the revenue and contribution to the loss for the period would have been materially the same.

12. DEEMED PARTIAL DISPOSAL OF SUBSIDIARY UNDERTAKING

On 1 November 2010 the Group successfully completed the Initial Public Offering of its diamond operations under the name of Paragon Diamonds Limited ("Paragon"). Immediately prior to listing on AIM, Paragon Diamonds Limited purchased the entire issued share capital of Sierra Leone Hard Rock Limited ("SLHR"), a wholly owned subsidiary of Obtala Resources Limited, and African Rock Resources Limited ("ARR"), a private company which holds the Mabuki diamond licence in Tanzania. The consideration was £17.5 million for SLHR and £2.5 million for ARR and was satisfied by way of issuing 87,500,000 and 12,500,000 new ordinary shares in Paragon at the listing price of 20 pence per share. Upon admission to AIM Paragon raised gross funds of £3.8 million by way of placing 18,985,000 new ordinary shares in Paragon at the listing price of 20 pence per share. The issue of new shares in Paragon to non-controlling interests created a deemed disposal for the Group resulting in a gain recognised in equity of £3.5 million.

Notes to the Financial Statements

On 8 December 2010 Paragon purchased 44.3 per cent. of the issued share capital of International Diamond Consultants Limited, a private British Virgin Island registered company for £5.7 million. The consideration was settled by way of issuing 23,397,894 new ordinary shares in Paragon Diamonds Limited at a market price of 24.5p per share. This subsequent issue of new ordinary shares in Paragon to non-controlling interests resulted in further dilution to Obtala and generated an additional gain of £2.1 million on the deemed disposal which has been recognised in equity.

13. INTANGIBLE EXPLORATION AND EVALUATION ASSETS

	Renholn licences £000	Mindex licences £000	African Rock licence £000	Uragold licences £000	Montara licences £000	Total licences £000
At 1 January 2009	–	23,497	–	1,670	–	25,167
Purchase of mining licences	–	113	–	–	104	217
Disposal of mining licences	–	(145)	–	–	–	(145)
Expenditure on exploration and evaluation	–	572	–	1	12	585
Impairment charge for the year	–	(1,113)	–	(674)	–	(1,787)
Foreign exchange differences	–	(2,237)	–	(174)	–	(2,411)
At 31 December 2009	–	20,687	–	823	116	21,626
Purchase of mining licences	183	–	2,500	–	–	2,683
Expenditure on exploration and evaluation	108	293	16	–	93	510
Impairment charge for the year	–	(2,631)	–	(225)	–	(2,856)
Foreign exchange differences	–	611	8	43	–	662
At 31 December 2010	291	18,960	2,524	641	209	22,625

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 plus any subsequent expenditure, net of any effects of foreign exchange and impairment charges.

Purchase of mining licences

African Rock Resources licence

During the period the Group acquired the Mabuki exploration licence in Tanzania by way of the African Rock Resources Ltd acquisition. The consideration of £2.5 million was settled by way of issuing 12,500,000 new ordinary shares in the Group's Paragon Diamonds Limited subsidiary.

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 from mining and earth resources consultants

(b) The expected useful lives of the licenses 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

(e) Local infrastructure

(f) Climatic and logistical issues

(g) Geopolitical environment

After considering these factors the Directors have chosen to make a charge of £2,856,000 (2009: £1,787,000) relating to the impairment of 16 licences (11 gold, 1 nickel, 3 copper and 1 platinum) that have expired and the Directors have not undertaken to renew.

As at 31 December 2010 applications to renew seven licences with a carrying value of £6.3 million (2009: £1.7 million) had been submitted to the Tanzanian government but at the date of issuance of this report these renewals had not been completed. The Directors however, have no reason to believe the renewals will be unsuccessful.

14. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings £000	Motor vehicles £000	Mining equipment £000	Mine property £000	Fixtures & equipment £000	Computer & IT equipment £000	Total £000
Cost							
At 1 January 2009	–	47	–	–	11	20	78
Additions	80	–	–	–	7	7	94
Effects of foreign exchange	8	(5)	–	–	–	–	3
At 31 December 2009	88	42	–	–	18	27	175
Additions	–	58	315	2,274	–	13	2,660
Acquired with subsidiary (note 11)	85	–	1,878	2,593	–	–	4,556
Disposals	–	(42)	–	–	–	–	(42)
Effects of foreign exchange	3	1	55	77	–	–	136
At 31 December 2010	176	59	2,248	4,944	18	40	7,485
Depreciation							
At 1 January 2009	–	6	–	–	2	4	12
Charge for the year	–	15	–	–	5	8	28
At 31 December 2009	–	21	–	–	7	12	40
Disposals	–	(21)	–	–	–	–	(21)
Charge for the year*	17	18	402	78	5	8	528
At 31 December 2010	17	18	402	78	12	20	547
Net Book Value							
At 31 December 2010	159	41	1,846	4,866	6	20	6,938
At 31 December 2009	88	21	–	–	11	15	135
At 1 January 2009	–	41	–	–	9	16	66

* During the year depreciation of mining equipment of £209,000 (£2009: nil) was capitalised to the mining property in bringing it up to commencement of commercial production.

15. TRADE AND OTHER RECEIVABLES

	2010 £000	2009 £000
Trade receivables	342	–
Other receivables	127	151
Prepayments and accrued income	29	22
	498	173

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

Notes to the Financial Statements

16. INVENTORIES

	2010 £000	2009 £000
Diamond inventory carried at net realisable value	197	–

17. INVESTMENTS

	Available for sale investments £000	Investments in associate £000	Total £000
Cost and Fair Value at 31 December 2009	–	–	–
Additions at cost	317	5,921	6,238
Acquisition costs	–	6	6
Cost and Fair Value at 31 December 2010	317	5,927	6,244

Available for sale investments represent investments in unqouted companies and are carried at fair value.

On 20 August 2010 the Group purchased a 1.5 per cent. interest in International Diamond Consultants Limited ("IDC") for £0.2 million.

On 8 December 2010 the Group purchased 44.3 per cent. of the issued share capital of International Diamond Consultants Limited, a private British Virgin Island registered company for £5.7 million. The consideration was settled by way of issuing 23,397,894 new ordinary shares in Paragon Diamonds Limited at a market price of 24.5p per share.

At 31 December 2010 International Diamond Consultants had assets of £845,000 and liabilities of £314,000. There was no profit or loss for the period between 8 December 2010, when IDC became an associate, and 31 December 2010.

18. FINANCIAL INVESTMENT ASSETS

	Quoted investments 2010 £000	Quoted investments 2009 £000
Financial assets carried at fair value through profit or loss		
Equity investments	180	3,837
Derivative assets	–	1,296
	180	5,133

The summary of those equity investments is as follows:

	Quoted investments 2010 £000	Quoted investments 2009 £000
Fair value at beginning of period	3,837	15
Additions at cost	1,333	4,391
Disposals	(5,088)	(2,773)
Increase in fair value	98	2,204
	180	3,837

Equity investments

Equity investments represent short-term investments in listed equity securities in mining and exploration companies which are treated as fair value through profit or loss.

The main investments the Group holds at 31 December 2010 are shares in Edenville Energy plc.

Derivative assets

The Group only trades in securities and derivative financial instruments that are quoted in active markets and the related financial assets and liabilities are stated at fair values based on the contracted actual costs and the quoted market prices of those instruments at the reporting date. All the above financial assets and liabilities are due in less than one year.

The principal classes of derivative financial instruments in which the Group traded during the year are contracts for difference.

The Group is exposed to market price risk in respect of its portfolio investments and also its trading investments and derivative financial instruments. The Group mitigates this risk by having established investment appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

The Group has in place procedures and levels of authority designed to control the level of commitment to such financial instruments, either in single investments or in aggregate.

19. FINANCIAL INSTRUMENTS

CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders. The overall strategy of the Company and Group is to minimise costs and liquidity risk.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in notes 23, 24 and 26 and in the Statement of Changes in Equity.

The Group is exposed to a number of risks through its normal operations, the most significant of which are exploration, credit, foreign exchange and liquidity risks. The management of these risks is vested in the Board of Directors.

CATEGORISATION OF FINANCIAL INSTRUMENTS

2010

Financial assets/liabilities	Held for trading/ designated as FVTPL £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Total £000
Trade and other receivables	–	469	–	469
Equity investments	180	–	–	180
Cash and cash equivalents	–	8,825	–	8,825
Trade and other payables	–	–	(457)	(457)
	180	9,294	(457)	9,017

2009

Financial assets/liabilities	Held for trading/ designated as FVTPL £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Total £000
Trade and other receivables	–	151	–	151
Equity investments	3,837	–	–	3,837
Cash and cash equivalents	–	5,010	–	5,010
Derivative assets	1,296	–	–	1,296
Derivative liabilities	(160)	–	–	(160)
Trade and other payables	–	–	(102)	(102)
	4,973	5,161	(102)	10,032

Notes to the Financial Statements

FAIR VALUE MEASUREMENTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

At 31 December 2010:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at FVTPL*				
Quoted equities	180	–	–	180
	180	–	–	180

At 31 December 2009:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at FVTPL*				
Quoted equities whose shares have been suspended	–	629	–	629
Quoted equities	3,208	–	–	3,208
Derivative assets	1,296	–	–	1,296
	4,504	629	–	5,133
Financial liabilities at FVTPL*				
Derivative liabilities	(160)	–	–	(160)
	(160)	–	–	(160)

* FVTPL – fair value through the profit and loss.

EQUITY PRICE RISK

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for both strategic and trading purposes.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5 per cent. higher/lower:

- Unrealised profit for the year ended 31 December 2010 would have been £5,000 higher/lower; and
- Realised profit for the year ended 31 December 2010 would have been £32,000 higher/lower.

The Group's sensitivity to equity prices has decreased in 2010 as the Group has reduced its investment portfolio.

MANAGEMENT OF EXPLORATION RISK

The Group is exposed to exploration risk in respect of its mineral licence projects. The Group mitigates this risk by having established mineral investment project appraisal processes and asset monitoring procedures which are subject to overall review by the Board.

MANAGEMENT OF MARKET RISK

The most significant area of market risk to which the Group and Company are exposed is interest risk.

As the Group has no significant borrowings its risk is limited to the reduction of interest received on cash surpluses held. This risk is mitigated by using fixed-rate deposit accounts.

Group	2010 Fixed rate £000	2009 Fixed rate £000	2010 Floating rate £000	2009 Floating rate £000	2010 Total £000	2009 Total £000
Cash and cash equivalents	–	504	8,825	4,506	8,825	5,010

The impact of a 10 per cent. increase/decrease in the average base rates would be £1,500 on the total cash and cash equivalents balances and on equity.

MANAGEMENT OF CREDIT RISK

The principal financial instruments of the Group are bank balances and financial investment assets and liabilities. The Group deposits surplus liquid funds with counterparty banks that have high credit ratings. Cash is sometimes placed with certain institutions in support of trading positions. The Group deposits such funds with large well known institutions and consider the credit risk to be minimal.

No aged analysis of financial assets is presented as no financial assets are past due at the reporting date.

MANAGEMENT OF FOREIGN EXCHANGE RISK

The Group has a limited level of exposure to foreign exchange rate risk through their foreign currency denominated cash balances.

	2010 £000	2009 £000
Cash and cash equivalents		
GBP	8,722	4,507
USD	103	503
Total	8,825	5,010

The table below summarises the impact of a 10 per cent. increase/decrease in the relevant foreign exchange rates versus the pound sterling rate, on the Group's pre tax profit for the year and on equity:

Impact of 10% Rate Change	2010 £000	2009 £000
Cash and cash equivalents	9	46

Notes to the Financial Statements

MANAGEMENT OF LIQUIDITY RISK

The Group seeks to manage liquidity risk by regularly reviewing cash flow budgets and forecasts to ensure that sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The Group deems there is sufficient liquidity for the foreseeable future.

The Group had cash and cash equivalents at 31 December as set out below.

Cash and Cash Equivalents

	2010 £000	2009 £000
Cash at bank	8,228	2,330
Cash with institutions in support of trading	597	2,680
	8,825	5,010

At 31 December 2010 the Group had pledged cash and cash equivalents of £597,000 (2009: £2.7 million) to institutions as collateral for exposures to derivative trading assets and liabilities.

20. TRADE AND OTHER PAYABLES

	2010 £000	2009 £000
Trade payables	331	16
Other payables	7	40
Accruals	119	46
	457	102

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

21. FINANCIAL INVESTMENT LIABILITIES

	2010 £000	2009 £000
Derivative liabilities	–	160

The Group only trades in derivative financial instruments that are quoted in active markets and the related financial assets and liabilities are stated at fair value based on the contracted costs and quoted market price of those investments.

22. SITE RESTORATION PROVISION

	2010 £000
At 1 January 2010	–
Acquired with subsidiary undertaking (note 11)	295
Foreign exchange differences	12
At 31 December 2010	307

The Group is exposed to restoration, rehabilitation and environmental liabilities relating to its mining operations. Estimates of the cost of this work, including reclamation costs, close down and pollution control, are made on an ongoing basis, based on the estimated life of the mine.

23. SHARE CAPITAL

	Number	£000
Authorised:		
Ordinary shares of 1 p each		
Obtala Services Limited		
At 1 January 2009 and 31 December 2009	250,000,000	2,500
Obtala Resources Limited		
At 20 July 2010 and 31 December 2010	Unlimited	Unlimited
Allotted, issued and fully paid:		
Ordinary shares of 1 p each		
Obtala Services Limited		
At 1 January 2009	177,500,000	1,775
Issued in year	15,172,223	152
At 31 December 2009	192,672,223	1,927
Issued in period	30,507,751	305
At 16 September 2010 and 31 December 2010	223,179,974	2,232
Obtala Resources Limited		
At 20 July 2010	–	–
Issued in period	224,079,974	2,241
At 31 December 2010	224,079,974	2,241

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. Costs of the re-organisation and re-admission to AIM were £323,000.

Under the accounting principles governing the re-organisation as set out in note 1, the share capital presented at 31 December 2010 is that of the legal parent, Obtala Resources Limited and the comparative is that of the legal subsidiary Obtala Services Limited.

Obtala Services Limited

On 12 January 2010 Obtala Services Limited issued 21,170,422 new ordinary shares at a price of 21.125p as consideration for the acquisition of Sierra Leone Hard Rock Limited.

On 17 May 2010 Obtala Services Limited completed the placing of 6,060,607 new ordinary shares at a price of 33p raised gross cash proceeds of £2,000,000.

On 24 May 2010 Obtala Services Limited issued 2,250,000 new ordinary shares at a price of 33p to the trustee of the Obtala Resources Employee Share Trust, more details of which are set out in note 28.

On 12 September 2010 Obtala Services Limited issued 1,026,722 ordinary shares in the Company at a price of 15.5p following the exercise of warrants raising gross cash proceeds of £159,142.

Notes to the Financial Statements

Obtala Resources Limited

On 16 September 2010 the Company issued 223,179,974 ordinary shares in the Company at a price of 1p to shareholders of Obtala services limited as part of the re-organisation referred to above.

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

24. SHARE PREMIUM ACCOUNT

	2010 £000	2009 £000
At beginning of year	5,290	2,828
Premium on issue of shares (see note 23)	6,988	2,485
Expenses on issue of shares	(4)	(23)
Transfer on group re-organisation (see note 23 and 25)	(12,143)	–
At 31 December	131	5,290

25. MERGER RESERVE

	2010 £000	2009 £000
At beginning of year	16,400	16,400
Transfer on group re-organisation (see note 23 and 24)	12,143	–
At 31 December	28,543	16,400

The movement in the merger reserve arises on the shares issued by the Company to acquire Obtala Services Limited on 16 September 2010 in a process that did not change the economics, operations or shareholder structure of the Group.

26. MOVEMENT IN REVENUE RESERVE AND OWN SHARES

	Retained earnings £000	Own shares £000	Revenue reserve £000
At 1 January 2009	(215)	–	(215)
Profit for the year	1,825	–	1,825
At 31 December 2009	1,610	–	1,610
Loss for the year	(5,376)	–	(5,376)
Dilution of interest in subsidiary	5,579	–	5,579
Transfer of share based payment (note 28)	45	–	45
Purchase of own shares	–	(735)	(735)
At 31 December 2010	1,858	(735)	1,123

Own Shares

On 24 May 2010, the Trustee of the Obtala Resources Employee Share Trust purchased by way of subscription, 2,250,000 ordinary shares of 1p each in the Company at a price of 33p per share. These shares were acquired jointly with a number of employees of the Group (the "Employees") pursuant to certain conditions set out in Joint Ownership Agreements ("JOAs"). Purchase of all the shares was initially funded in full by way of a loan contribution from the Company of £742,500 to the Trustee and the Employees have subsequently repaid to the Company the 1 per cent. of the purchase cost attributable to their initial interest in the jointly owned shares, amounting to £7,425. The Trust's interest in all the above shares have been classified as own shares.

27. CAPITAL AND OPERATING LEASE COMMITMENTS

The Group had total commitments under non-cancellable operating leases falling due as follows:

	Land & buildings and mining licences 2010 £000	Land & buildings 2009 £000
Within one year	134	40
One to two years	519	5
	653	45

The Group had total capital commitments under non-cancellable agreements falling due as follows:

	Investment in Meso 2010 £000	Investment in Meso 2009 £000
Within one year	972	–
	972	–

On 7 December 2010 Paragon Diamonds entered into an agreement with Meso Diamonds, a subsidiary of International Diamond Consultants.

The principal terms of the agreement allow Paragon to acquire a 10 per cent. interest in Meso for US$2,000,000. This investment will fund exploration work to take the Lemphane project to pre-feasibility status. US$500,000 was paid during the year upon signing and the remaining payments were due:

- In May 2011 US$500,000 in cash or plant and equipment
- In December 2011 US$1,000,000 in cash or shares in Paragon Diamonds.

28. SHARE BASED PAYMENTS

Obtala Option Scheme

The Group operates a share option plan, under which certain directors and employees have been granted options to subscribe for ordinary shares. All options are equity settled. The options have an exercise price of 37.6p which was based upon the average value of the Group's ordinary shares for the ten days prior to the date of grant. The vesting period was generally 1 or 2 years. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The number and weighted average exercise prices of share options are as follows:

	2010 Number of share options	2010 Weighted average exercise price per share (pence)	2009 Number of share options	2009 Weighted average exercise price per share (pence)
At beginning of period	2,000,000	37.6	2,000,000	37.6
Granted during the year	–	–	–	–
Lapsed during the year	(850,000)	37.6	–	–
Outstanding at 31 December	1,150,000	37.6	2,000,000	37.6

There were 1,150,000 share options outstanding at 31 December 2010 which were eligible to be exercised with a weighted average remaining contractual life of 8 years and 10 months (2009: 9 years and 10 months). To date no share options have been exercised. There are no market based vesting conditions attached to any of the share options outstanding at 31 December 2010.

Notes to the Financial Statements

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. This is estimated based on the Black Scholes model which is considered most appropriate considering the effects of the vesting conditions, expected exercise price and the payment of the dividends by the Company. The fair value of each option is 5.14p (2009: 5.14p). A charge has been recognised in the income statement of £nil (2009: £66,000) for the year. During the year 850,000 options lapsed or were cancelled and a transfer from share based payments reserve has been made through equity amounting to £45,000 to offset the charge already taken through profit or loss in prior periods.

Jointly Owned Shares

The Obtala Resources Employee Share Trust ("the Trust") was established with Marlborough Trust Company Limited appointed as trustee ("the Trustee") to enable the Trust to acquire shares in the Company and to make interests in those shares available for the benefit of current and future employees of the Company and its subsidiaries.

On 24 May 2010, the Trustee purchased by way of subscription, 2,250,000 ordinary shares of 1p each in the Company at a price of 33p per share. These shares were acquired jointly with a number of employees of the Group ("the Employees") pursuant to certain conditions set out in Joint Ownership Agreements ("JOAs"). Purchase of all the shares was initially funded in full by way of a loan contribution from the Company of £742,500 to the Trustee and the Employees have subsequently repaid to the Company the 1 per cent. of the purchase cost attributable to their initial interest in the jointly owned shares, amounting to £7,425. The Trust's interest in all the above shares have been classified as own shares.

Subject to meeting the conditions set out in the JOAs, most of any future increase in the value of the shares will accrue to the Employees by way of receipt of a proportionate number of wholly owned shares or at the option of the Trustee, an alternative realisation mechanism for an equivalent amount. The consequence of these conditions is that in most instances an Employee will only be able to benefit from an increase in the value of the shares in equal tranches on or after each of the two consecutive annual anniversaries of purchase and provided the Employee has not ceased employment with the Group on or before the date that these conditions are met.

The Employees are also, under certain circumstances, able to benefit from an increase in the value of the shares on a takeover, change of control, scheme of arrangement or a voluntary winding-up of the Company. Where these conditions are not met, the Trustee has an option to acquire the Employee interests in the shares at a price equal to the original purchase cost paid by the Employee so that none of any increase in the value of the shares will accrue to the Employee. The following tables illustrate the number and weighted average market purchase prices of, and movements in, jointly owned shares during the year:

		2010		2009
	Number of shares	Weighted average purchase price per share (pence)	Number of shares	Weighted average purchase price per share (pence)
At beginning of period	–	–	–	–
Jointly purchased during the year	2,250,000	33.0	–	–
Outstanding at 31 December	2,250,000	33.0	–	–
Number for which JOA conditions are met as at 31 December	–	–	–	–

The market purchase price for all of the jointly owned shares purchased during the year was 33p (2009: nil). No jointly owned shares were sold or redeemed during the year.

None of the relevant JOA conditions had been met by 31 December 2010.

The fair value of jointly owned shares purchased is estimated as at the date of purchase using a Black Scholes model, taking into account the terms and conditions upon which the jointly owned shares were purchased. A charge of £78,000 has been recognised as an expense in the year (2009: nil).

Paragon Diamonds Shares

On 1 November Paragon Diamonds Limited issued 299,925 shares of 1 p each to certain employees at par value. The difference between the issue price and the fair value of these shares has been recognised as a share based payment in the year.

Issue of Warrants

During the year the Company issued 1,926,722 warrants to Fox Davies Capital Limited with an exercise price of 15.5 pence with no other performance criteria. The fair value of the warrants was estimated at the issue date using a Black Scholes model and resulting charge of £135,000 taken through profit or loss in the current year.

29. NON-CONTROLLING INTERESTS

	£000
At 1 January 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

30. RELATED PARTY TRANSACTIONS

TRADING TRANSACTIONS

During the year the Group companies entered into the following transactions with related parties:

		2010		2009
	Transactions in year £000	Balance at 31 December £000	Transactions in year £000	Balance at 31 December £000
Loans to subsidiary undertakings	3,037	5,743	901	2,706
Loans from subsidiary undertakings	(638)	–	463	638
Loans between subsidiary undertakings	1,056	2,298	1,199	1,242
Transactions with other related parties:				
Advisory fees	15	5	32	2
Property recharges	40	–	25	7

All of the loan amounts referred to above are unsecured and are repayable on demand. The advisory fees and property recharges are from ORA Capital Services Limited (formerly ORA Capital Partners plc), a shareholder of the Company.

On 20 August 2010 Obtala Services Limited (formerly Obtala Resources plc) purchased by way of subscription 600,000 new ordinary shares in International Diamond Consultants Limited at a price of US$0.50 per share representing total consideration of US$300,000. Grandinex International Corp held a 44.3 per cent. interest in International Diamond Consultants Limited.

On 1 November 2010 Paragon Diamonds Limited agreed to purchase the entire issued share capital of African Rock Resources Limited from Grandinex International Corp, Stockton Continental Inc and Gribben Enterprises Limited. The total consideration of £2.5 million was settled by way of issuing 18,750,000 new ordinary shares in Paragon Diamonds Limited. Francesco Scolaro holds a controlling interest in both Grandinex International Corp. and Stockton Continental Inc and Simon Rollason holds a controlling interest in Gribben Enterprises Limited. Until 22 January 2011 James Ede-Golightly was a Director of Grandinex International Corp.

On 8 December 2010 Paragon Diamonds Limited purchased a 44.3 per cent. interest in International Diamond Consultants Limited from Grandinex International Corp. The total consideration of £5.7 million was settled by way of issuing 23,397,894 new ordinary shares in Paragon Diamonds Limited.

On 7 December 2010 Paragon Diamonds Limited entered into an agreement with Meso Diamonds, a subsidiary of International Diamond Consultants and held an investment carried at cost of £317,000 as at 31 December 2010.

Notes to the Financial Statements

On 31 December 2010 the Group held no shares in Kopane Diamonds (2009: shares with a value of £3.2 million and derivatives instruments with a value of £1.3 million). During the year the Group generated a loss of £1.4 million on its investment in Kopane Diamonds (2009: £5.7 million profit). Frank Scolaro held the position of non-executive Director of Kopane Diamonds until September 2010.

On 31 December 2010 the Group held shares in Edenville Energy plc worth £0.1 million (2009: £0.6 million). During the year the Group generated a profit of £0.2 million (2009: £0.2 million). The Group had a receivable balance due from Edenville Energy plc of £78,000 at 31 December 2010 (2009: £95,000). Simon Rollason is an executive Director of Edenville Energy plc.

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

The Group's key management personnel comprised only the Executive Directors of the Company.

	Short-term employment benefits				
2010	Salaries & fees £000	Employer's national insurance contributions £000	Relocation expenses £000	Share based payments £000	Total cost to company £000
Francesco Scolaro	108	8	92	–	208
Simon Rollason	155	13	–	17	185
Michael Bretherton	10	1	–	17	28
	273	22	92	34	421

	Short-term employment benefits			
2009	Salaries & fees £000	Employer's national insurance contributions £000	Share based payments £000	Total cost to company £000
Francesco Scolaro	53	6	–	59
Simon Rollason	155	19	40	214
Michael Bretherton	10	1	–	11
	218	26	40	284

31. POST BALANCE SHEET EVENTS

On 27 January 2011 Paragon Diamonds completed a placing of 8,500,000 new ordinary shares at a price of 34p per share raising gross proceeds of £2.9 million.

On 20 April 2011 Paragon Diamonds agreed to purchase a further 54.2 per cent. interest in International Diamond Consultants Limited for £12.1 million. The consideration was satisfied by issuing 35,670,705 new ordinary shares in Paragon Diamonds at a price of 34 pence per share.

On 22 February 2011 the Company agreed to enter into a subscription of US$4 million for a 50 per cent. interest in Greenhills Resources Limited giving the Group an underlying interest of 37 per cent. in a Near-Term producing Tin deposit in South Africa.

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

On 6 March 2011 the Group agreed to acquire a 50 per cent. interest in Bushveld Resources Limited for consideration of US$0.5 million in cash and issuing 11,948,378 new ordinary shares in the Company.

32. ULTIMATE PARENT COMPANY

At 31 December 2010 the Directors do not believe that there was an ultimate controlling party.

Notice of the Annual General Meeting

For the year ended 31 December 2010

NOTICE IS HEREBY GIVEN that the 2011 Annual General Meeting of Obtala Resources Limited (registration number 52184) will be held at the Company's registered office, Dixcart House, Sir William Place, St Peter Port, Guernsey, GY1 1GX on 20 July 2011 at 10.00 a.m. to transact the following business:

ORDINARY BUSINESS

As ordinary business to consider and, if thought fit, pass the following resolutions, which will be proposed as ordinary resolutions:

1. To receive and adopt the Directors' Report, the Audited Statement of Accounts and Auditor's report for the year ended 31 December 2010.

2. To re-elect Simon Rollason as a director of the Company, who retires by rotation pursuant to the Articles of Incorporation of the Company.

3. To re-elect Nicholas Clarke as a director of the Company, who retires by rotation pursuant to the Articles of Incorporation of the Company.

4. To re-appoint Baker Tilly Channel Islands Limited as auditor of the Company and to authorise the Directors to determine their remuneration.

SPECIAL BUSINESS

As special business to consider and, if thought fit, pass the following resolutions, of which Resolution 5 will be proposed as an ordinary resolution and Resolutions 6 and 7 will be proposed as special resolutions:

Allotment of shares

5. THAT the Directors be hereby generally and unconditionally authorised, in substitution for all previous powers granted to them, pursuant to Article 8 of the Company's Articles of Incorporation ("the Articles") to exercise all the powers of the Company to allot and make offers to allot equity securities (as defined in Article 8 of the Articles) up to an aggregate nominal amount of £786,933.25 provided that this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2012 save that the Company may before such expiry make an offer or enter into an agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as the authority conferred hereby had not expired.

Disapplication of pre-emption rights

6. THAT the Directors be authorised and empowered, in substitution for all previous powers granted to them, pursuant to Article 9 of the Articles to allot equity securities (as defined in Article 8 of the Articles) for cash pursuant to the authority referred to in resolution 5 above as if Article 9.2 of the Articles did not apply to any such allotment provided that this power should be limited to the allotment of equity securities:

    a. on a *pro rata* basis to the holders of ordinary shares in the Company where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under law of, or the requirements of any regulatory body or any recognised stock exchange in, any territory;

    b. with an aggregate nominal amount of £354,119.96 otherwise than pursuant to paragraph 6a above; and

    c. this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2012 save that the Company may before such expiry make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as the authority conferred hereby had not expired.

Notice of the Annual General Meeting

Buy-back of shares

7. THAT, the Company be generally and unconditionally authorised for the purposes of Article 50.3 of the Articles to make market purchases (as defined in Article 50.5 of the Company's Articles) of ordinary shares of the Company on such terms and in such manner as the directors of the Company shall determine provided that:

   a. the maximum aggregate number of ordinary shares which may be purchased is 35,388,388 ordinary shares;

   b. the minimum price (excluding expenses) which may be paid for each ordinary share is 1p;

   c. the maximum price (excluding expenses) which may be paid for any ordinary share does not exceed 5 per cent. above the average closing price of such shares for the five business days on the London Stock Exchange prior to the date of purchase; and

   d. this authority shall expire at the conclusion of the next annual general meeting of the Company unless such authority is renewed prior to that time (except in relation to the purchase of ordinary shares the contract for which was concluded before the expiry of such authority, in which case such purchase may be concluded wholly or partly after such expiry).

On behalf of the Board

Michael Bretherton
Director

16 June 2011

Registered office:
Dixcart House
Sir William Place
St Peter Port
Guernsey
GY1 1GX

Explanatory Notes

For the year ended 31 December 2010

Entitlement to attend and vote

1. The time by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting is 6.00 p.m. on 18th July 2011. If the meeting is adjourned, the time by which a person must be entered on the register of members in order to have the right to attend or vote at the adjourned meeting is 48 hours before the date fixed for the adjourned meeting. Changes to entries on the register of members after such times shall be disregarded in determining the rights of any person to attend or vote at the meeting.

Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

3. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.

4. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If you either select the “Discretionary” option or if no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

Appointment of proxy using hard copy proxy form

5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

   To appoint a proxy using the proxy form, the form must be:

   - completed and signed;
   - sent or delivered to Capita Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and received by Capita Registrars no later than 10.00 a.m. on 18th July 2011.

   In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

   Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

Appointment of proxy by joint members

6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company’s register of members in respect of the joint holding (the first-named being the most senior).

Changing proxy instructions

7. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

   Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capital Registrars, PXS, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

   If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

Explanatory Notes

Termination of proxy appointments

8. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment as above. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

   The revocation notice must be received by Capita Registrars no later than 10.00 a.m. on 18th July 2011. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

   Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

Issued shares and total voting rights

9. As at 6.00 p.m. on 16 June 2011, the Company's issued share capital comprised 236,079,974 ordinary shares of 1p each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 20th July 2011 was 236,079,974.

Documents on display

10. The following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (weekends excepted) from the date of this notice until 20th July 2011 and at the place of the Meeting for 15 minutes prior to and during the Meeting:

    (a) copies of the service contracts of executive directors of the Company; and

    (b) copies of letters of appointment of the non-executive directors of the Company.

Crest Proxy Instructions

11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held at 10.00 a.m. on 20 July 2011 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

    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 must be transmitted so as to be received by the Company's agent, Capita Registrars Limited (CREST Participant ID: RA10), no later than 48 hours before the time appointed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

    CREST members and, where applicable, their CREST sponsor or voting service provider 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 takes) 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 sponsor or voting service provider are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.